CHAPTER-II

2.1 Performance Audit on the functioning of Madhya Pradesh Financial Corporation

Executive Summary

Madhya Pradesh Financial Corporation was established under the State Financial Corporations Act, 1951 (SFC Act) for promoting industrial development in the state of Madhya Pradesh. The objective of the Corporation is to provide assistance for establishment of industries in the small, medium service sectors and to play a supportive role in developing the industrial base in the state. The Performance Audit of the Corporation was conducted to assess the economy, efficiency and effectiveness in providing financial assistance during the period from 2006-07 to 2010-11.

Industrial promotion policy and assistance to micro, small and medium enterprises

The Industrial Promotion Policy, Action Plan unveiled by the State Government in 2004-05 and the annual Memorandum of Understanding (MoU) signed with the State Government envisaged developing of industrial clusters and providing term loan assistance to micro, small and medium enterprises in backward areas. However, the Corporation could sanction only ₹ 475.29 crore to backward areas out of total ₹ 1042.38 crore sanctioned. Assistance to micro and small entrepreneurs declined year after year. The Corporation's market share in lending to Micro, Small and Medium Enterprise (MSME) sector in the state was only 6.48 per cent as compared to 93.52 per cent by commercial banks.

Appraisal of loans

Deficient appraisal of loans resulted in sanctioning of loans to two borrowers from whom ₹ 6.96 crore is outstanding with default ₹ 1.27 crore. Incorrect application of interest rates on seven loans led to loss of income of ₹ 30.50 lakh. The Corporation extended rebate of ₹ 20.65 lakh to ineligible borrowers.

Sanction and Disbursement

The Corporation could not disburse all the loans sanctioned every year because of non-availability of adequate funds. It disbursed ₹ 673.06 crore (65 per cent of loans sanctioned) out of ₹ 1042.38 crore sanctioned during the five-year period. The Corporation did not dispose of loan applications within the time frame prescribed in its loan policy.

Recovery and follow-up

The annual target fixed for recovery was less than the amount due for recovery. The amount to be recovered at the end of each year increased from ₹ 66 lakh in 2008-09 to ₹ 5.22 crore in 2010-11. The total NPA portfolio of the Corporation aggregated to ₹ 10.20 crore at the end of 2010-11 even after the transfer of entire NPA to the State Government during 2007-08. It indicated the Corporation's weakness to effectively monitor its NPA. It suffered a loss of ₹ 32.47 crore through One Time Settlement (OTS) of dues. The percentage of loss on OTS increased from 30 in 2007-08 to 78 in 2010-11.

Delay in initiating recovery proceedings resulted in accretion of outstanding dues of ₹ 16.52 crore and default of ₹ 1.27 crore in respect of loans of ₹ 11.89 crore provided to four borrowers. The Corporation could finalize sale and recover dues *amounting ₹ 11.07 crore from 49 out of 120 units taken over during the five year period. The Corporation could not recover ₹ 5.10 crore on sale of 23 units as their sale proceeds did not cover the amount of default.*

Financial Management

The profit increased from ₹ 51 lakh in 2008-09 to ₹ 2.01 crore in 2010-11. No dividend was paid on the State Government's investment of ₹ 269 crore. The Corporation mobilized only ₹ 71.42 crore against ₹ 100.00 crore through issue of bonds during 2009-10 and 2010-11.

Conclusion and recommendations

The Corporation did not play its supportive role effectively to industrialise the backward districts. The loan appraisal system was found to be deficient. Its interest rates were uncompetitive and the loss in One Time Settlement (OTS) was increasing year after year. The loans were rescheduled without any limit on number of re-scheduling.

The performance audit report contains six recommendations, which include evolving a structured policy for providing more assistance to MSME sector and to develop industries in backward areas, evolving a mechanism to make its interest rates competitive and adhere to time limits fixed by the Board for sanctioning of the loans.

Introduction

2.1.1 Madhya Pradesh Financial Corporation, formerly known as Madhya Bharat Financial Corporation, was established on 30 June 1955 under Section 3(1) of the State Financial Corporations Act, 1951 (SFC Act) for promoting industrial development in the State of Madhya Pradesh. The Corporation was promoted by Government of Madhya Pradesh (State Government) and Industrial Development Bank of India (IDBI) along with commercial banks, LIC of India and others. In 2006, the shareholding of IDBI was transferred to Small Industries Development Bank of India (SIDBI) and the Corporation was re-organized due to bifurcation of the State in 2003-04 into Madhya Pradesh and Chhattisgarh. As on 31 March 2011, the total share capital of the Corporation stood at ₹ 351.14 crore, with the State Government holding shares worth ₹ 328.70 crore (93.61 *per cent*), SIDBI ₹ 22.22 crore (6.33 *per cent*), and others (public sector banks, Life Insurance Corporation of India, Investment Trust & Co-operative Bank and individuals) holding ₹ 22 lakh (0.06 *per cent*). The objective of the Corporation is to provide assistance for establishment of industries in the small, medium and service sectors and to play a dynamic role in developing the industrial base and socio-economic infrastructure in the State of Madhya Pradesh.

The management of the Corporation is vested with the Board of Directors, which comprised of six directors including the Chairman and the Managing Director. The Managing Director is the Chief Executive of the Corporation, who is assisted by two General Managers. The Corporation has ten Field Offices (FO)[16] and nine Business Development Centres (BDC)[17] spread across the state. One Field Office is located at New Delhi. Each FO/ BDC is headed by an officer of the rank of Deputy General Manager/ Manager/ Deputy Manager, who reports to the Head Office at Indore.

Scope of Audit

2.1.2 The performance of the Corporation was last reviewed and incorporated in the Audit Report (Commercial) of the Comptroller and Auditor General of India for the year ended 31 March 2006 (Government of Madhya Pradesh) and was deliberated in the meeting of Committee on Public Undertakings (COPU) in January/ February 2010 and its recommendations were awaited (September 2011). The present Performance Audit covered the activities of the Corporation with special reference to financial assistance received as grant and equity from the State Government and the financial assistance extended to entrepreneurs for economic development of the State from 2006-07 to 2010-11.

Loan sanction files pertaining to the period 2006-07 to 2010-11, available at the Head Office and Field Offices/ Business Development Centres, were examined based on stratified random sampling using IDEA software. We reviewed 430 loan sanction files valuing ₹ 896.09 crore (out of 1495 loan sanction files valuing ₹ 1032.36 crore), covering 29 *per cent* in terms of number of loan sanction files and 87 *per cent* in terms of the value of loans sanctioned.

Audit Objectives

2.1.3 The Performance Audit was undertaken to evaluate and assess whether

- the assistance extended was in line with the industrial development policy of the State Government and fulfill the objective of providing the loan to medium and small scale industries in backward areas.
- there existed proper system of project appraisal and the same was sound, effective and adequate to cover the risk of lending;
- there existed customer-friendly environment to attract/ retain good customers and loans were extended on competitive rates so as to sustain its operations;

[16] *Field Offices: Capital Market Division (Indore), Indore-I, Indore-II, Bhopal, Jabalpur, Gwalior, Ratlam, Ujjain, Dewas and Satna.*

[17] *Business Development Centres: Indore Urban-I, Indore Urban-II, Sendhwa, Katni, Harda, Sagar, Rewa, Shahdol and Khandwa.*

- adequate monitoring mechanism existed to ensure timely recovery of dues and resorting to speedy legal action in case of default;
- the funds were borrowed, disbursed and utilised effectively and efficiently; and
- there was an effective and efficient system of internal checks and controls.

Audit Criteria

2.1.4 The audit objectives were assessed against

- objectives of the State Government's industrial policy;
- provision of Memorandum of Understanding (MoU) signed with the State Government and SIDBI;
- guidelines and instruction issued by RBI, SIDBI and the Central/ State Government regarding financing and utilization of loans;
- decisions taken in meetings of the Project Appraisal Committee;
- targets set in annual plans and budgets ;and
- objectives of the Loan Policy and laid down procedures for sanction, disbursement and follow up and recovery of loan.

Audit Methodology

2.1.5 The following Audit methodology was adopted for scrutiny of records.

- Examination of various Acts and rules applicable to the functioning of the Corporation such as SFC Act 1951, RBI/SIDBI guidelines, State Government Industrial Policy, terms and conditions of MOU entered into with the State Government;
- Issue of audit memos and their replies thereto;
- Interaction and personal discussion with the officials of the audited entity.

Financial assistance and recovery procedures

2.1.6 As per Section 26 of the SFC Act, 1951 the Corporation can grant financial assistance up to ₹ 5 crore to a company or co-operative society and up to ₹ 2 crore to any other unit. This limit can be increased four times with the prior approval of SIDBI. Section 28 of the Act prohibits any assistance to an industrial concern whose aggregate paid-up share capital and free reserve exceeds ₹ 30 crore. Loans are sanctioned and disbursed after appraisal of viability of schemes. In case of default in repayment of loans, Section 29 of the Act empowers the Corporation to take over the unit and sell the mortgaged/ hypothecated property. It can apply to the District Judge concerned for an order for sale of such property and enforcing the liability of any surety. As per Section 32-G, the amounts due to the Corporation could be treated as an arrear of land revenue and recovered by issuing Revenue Recovery Certificate (RRC) by the District Collector concerned under an application to the State Government. The process of sanction, disbursement and recovery is shown in ***Annexure-7***.

Financial position and working results

2.1.7 The summarized financial position and working results of the Corporation for the years 2006-07 to 2010-11 are given in ***Annexure-8*** and ***Annexure-9*** respectively. The Corporation suffered loss in 2006-07 but posted profit from 2007-08 after the State Government, as part of financial restructuring, took over its Non Performing Assets (NPA). The Corporation, in the 391st meeting of its Board of Directors (April 2008), projected that the Corporation would move from the situation of negative spread to positive profit and would earn a profit of ₹ 2.50 crore in 2008-09 after restructuring. The Corporation could, however, earn a profit of ₹ 51 lakh in 2008-09, ₹ 1.10 crore in 2009-10 and ₹ 2.01 crore in 2010-11.

The *percentage* of return on capital employed increased from 2.87 in 2006-07 to 7.46 in 2007-08 but decreased to 4.97 during 2010-11. The increase in *percentage* of return on capital employed during 2007-08 was mainly due to re-casting of accounts on the basis of 'Uniform Accounting Policy[18] recommended by SIDBI. At the same time, the net worth of the Corporation dipped from ₹ 277.19 crore in 2006-07 to ₹ 131.02 crore in 2007-08 and thereafter rose to ₹ 152.20 crore in 2010-11.

The Corporation stated (September 2011) that the financial accounts were drawn on accrual system of accounting for the first time in 2007-08 with many adjustment entries along with balance sheet restructuring and, hence, comparison of figures should be made from 2008-09. We observed that increase in profit and net worth was unimpressive even after 2007-08 despite financial support and restructuring.

Audit Findings

2.1.8 Before taking up the Performance Audit, the audit scope, objectives and methodology were explained to the Corporation during the Entry Conference held on 18 April 2011. Audit findings noticed during performance audit were reported to the Corporation/ Government in July 2011 and discussed in the Exit Conference held on 29 November 2011, which was

[18] *Change from cash to accrual system of accounting .*

attended by the Managing Director and senior officers of the Corporation. The views and reply of the management were considered while finalizing the report. However, reply was not received from the Government and representative from the Government was also not present in the entry and exit conference**.** The audit findings are discussed in the succeeding paragraphs.

Industrial promotion policy and support to micro and small industries

Inadequate support to entrepreneurs in backward and rural areas

Loans amounting to ₹ 567.09 crore were sanctioned to industries in non backward areas .

2.1.9 As per the Statement of Objects and Reasons in the SFC Act, the SFCs should confine their activities to financing medium and small scale industries. The annual MOU signed with the State Government envisaged that the Corporation would provide assistance to small and medium sectors in backward /rural areas for establishment of Greenfield projects and ensure balanced regional growth across the length and breadth of the state. Further, the industrial promotion policy 2004(revised in November 2010) of the State Government provided for tackling industrial sickness and developing infrastructure by promoting industries in identified industrial clusters keeping in mind the availability of raw materials skilled labour and market potential.

An analysis of the district wise sanction of loans during the period from 2006-07 to 2010-11 revealed that industries in Indore (non backward district) were sanctioned loans of ₹ 457.80 crore while those in Bhopal (non backward district) were sanctioned loans of ₹ 109.29 crore which accounted for 44 *per cent* and 11 *per cent* of the total loans sanctioned respectively.

A further analysis of loans advanced to micro small and medium enterprises by all the financial institutions including commercial banks in the State of Madhya Pradesh during the period 2006-07 to 2010-11 revealed that the financial institutions accounted for 93.52 *per cent* amounting to ₹ 9709.98 crore, of the total sanctioned loan while the Corporation sanctioned loans amounting to ₹ 673.06 crore (6.48 *per cent*). The market share of the Corporation which was 13.26 *per cent* in 2006-07 came down to 4.35 *per cent* in 2010-11.

Loans of ₹ 51.35 crore were not availed by the loanees due to un-competitive interest rates.

An analysis of 430 loan sanction cases during the performance audit period revealed that 103 borrowers did not avail the loans amounting to ₹ 282.43 crore even though they were sanctioned**.** A scrutiny of the reasons for non availment revealed various reasons such as uncompetitive rates of interest offered by the Corporation as compared to the rate of interest offered by the commercial banks, difficulty in fulfilling the terms and conditions relating to mortgage of the property and additional security demanded by the Corporation. We observed that 11 borrowers did not avail the loans amounting to ₹ 51.35 crore due to sanctioning of loans by commercial bank at a lesser rate of interest.

The Corporation replied (September 2011) that the industries in the backward areas could not be sanctioned loans as the entrepreneurs did not put up the projects in the backward areas by their own choice and therefore the loan applications did not come from the backward areas. Further the Corporation also replied that they should not be compared with the commercial banks which have many branches for lending term loans and working capital loans. The commercial banks raised the funds from primary sources[19] while the Corporation avails refinance form secondary sources[20]. The fact remains that Corporation had 18 branches situated all over the state with more than half a century of its experience in providing term loans. We observed that the Corporation did not come up with innovative and attractive ideas of financing the medium and small industries in backward areas in order to promote, encourage and motivate the entrepreneurs to set up their industries in such areas. The Corporation did not bring to the notice of the entrepreneurs through advertisement about the various kinds of facilities and the range of finances available to an entrepreneur if they were ready to put up industries in backward areas. Further the Corporation did not mobilize optimal resources from the primary source even though the State Government has given them guarantee for placement of bonds with the capital market**.** By acting on the suggestion of the State Government, the Corporation could have reduced its dependence on the refinancing from the secondary source as discussed in *Para 2.1.32* and improving its ability to provide loans to borrowers at a competitive rate of interest.

Further, an analysis of the interest rates offered by the Corporation as compared to the commercial banks revealed that the interest rate charged by the Corporation was higher by one *per cent*. We analysed in audit, 11 borrowers switched over to the commercial banks due to higher rate of interest offered by the Corporation. The Corporation does not have a mechanism to review the rates of interest charged by various financial institutions including commercial banks on the loans offered by them in order to adjust its rates of interest and become more competitive in the business of lending.

In the absence of such mechanism and its flexibility to become competitive they lost business worth ₹ 51.35 crore during the last five years ending 2010-11 due to lower rate of interest offered by other institutions.

High exposure in commercial and real estate sector

2.1.10 The Board of Directors in June 2008 laid down the sectoral norms for sanction of loans. As per the norms, the Corporation was expected to limit its loan exposure to Industrial and manufacturing sectors to 50 *per cent* of the total loans sanctioned, 25 *per cent* to service sector and 25 *per cent* to CRE sector. As per ***Annexure 10*** exposure to CRE sector was more than the prescribed limit of 25 *per cent*. CRE sector was sanctioned loans working out to 35 *per cent* in 2007-08, 27 *per cent* in 2009-10 and 39 *per cent* of total

[19] *Funds raised through issue of bonds from capital market.*
[20] *Funds raised from refinancing institutions such as SIDBI/HUDCO.*

loans sanctioned in 2010-11. The Corporation maintained that the growth in assistance to CRE sector was high because of major investment in CRE sector and it asserted that it was assisting the industrial sector also. The fact remains that Corporation did not adhere to the exposure limits fixed by the Board.

Appraisal of loans

2.1.11 The borrowers intending to avail loans applies to the Corporation in the forms prescribed for various types of loan such as small loans, working capital loans, medium term loans and long term loans. The applications are accompanied by the project report, required documents and prescribed fees. The Corporation has devised check list with reference to which the respective applications are processed to ascertain the credit risk rating of the borrower.

The FO/BDC prepares appraisal on the basis of the documents submitted by the borrowers and submits the same to the loan committees established for sanctioning of the loan depending upon the amount of loan applied for. If the loan amount exceeds ₹ 2.40 crore, the appraisal is submitted to the board for sanctioning.

Deficiencies in appraisal of loans

2.1.12 On scrutiny of the loan sanctioned files we observed that the loans were sanctioned without ensuring the fulfillment of the conditions of the sanction, existence of security, sanctioning of loans on unapproved terms and unapproved rates of interest. Loans were also granted with inadmissible rebates, to inadmissible borrowers and additional loans to defaulting borrowers. The cases falling under the above category are briefly narrated in the following paragraphs.

An amount of ₹ 6.96 crore was outstanding and ₹ 1.27 crore in default on loans sanctioned to borrowers due to deficient appraisal.

- An application for a term loan of ₹ 7.50 crore by Deccan Chromate ltd, Shahdol was scrutinized and sanctioned (February 2009) by the board with rate of interest at 14.5 *per cent* to enable the completion of the ongoing project of manufacturing chemicals. The borrower offered security in the form of land, buildings, plant and machinery. The loan was sanctioned with the condition that the borrower would raise and invest interest free unsecured loan of ₹ 4.41 crore and also invest ₹ 2.50 crore out of internal accruals for implementation of the unit. The terms and conditions further provided that he would furnish additional security of ₹ 25 lakh before availing the loan. However without ensuring the fulfillment of the above conditions of additional funds into business and also without an independent appraisal of the project by an outside agency in view of the fact that the Corporation had no experience of financing in the region in this portfolio, the Corporation disbursed an amount of ₹ 2.65 crore in May 2009. Even after observing that the unit did not repay the loan and having issued notices under section 138 (b) and (c) of the Negotiable Instruments Act, the Corporation released further installments of ₹ 85 lakh in December 2009, ₹ 20 lakh in March 2010 and ₹ 1.35 crore in September 2010. As on May 2011, an amount of ₹ 6.96 crore was pending for recovery. Subsequently, it was also brought to the notice of the Corporation that the unit was located on disputed land. The appraisal of the loan application without verifying that the property was situated in a land free from encumbrance and further release of loans without fulfillment of terms and conditions of loan in terms of additional capital to be brought in by the borrower, resulted in the loan of ₹ 6.96 crore becoming irrecoverable.

The Corporation stated (September 2011) that the loan was sanctioned after independent appraisal and disbursements were made to enable completion of project and ensuring payment to outstanding creditors. However, the examinations of records indicated that the loan appraisal was done based on project information provided by the loanee and not backed up by on site visit by Corporation officials. Subsequent disbursements to the borrower were not justified in the backdrop of default in repayment and inability of promoters to tie up the required funds before availing the loan.

- The BDC at Sendhwa, sanctioned (December 2006) a term loan of ₹ 15 lakh for construction of a marriage and community hall to a borrower on security of first charge on its land and building and residential house of the guarantor. The borrower defaulted in repayment of interest from June 2007 and various actions by the Corporation by way of legal notices by the borrower did not bring the desired results of the recovery as the mortgage property could not be taken over due to resistance by the local residents stating that a school was being run on the site. The RRC issued (September 2009) by Corporation through the district collector did not yield any result. With the lapse of eighteen months the loan had accumulated to ₹ 16.84 lakh (June 2011). When the audit took up the matter with the Corporation, it replied (September 2011) that they did not take over the property as the local residents were resisting the move stating that a school might exist in the site. We considered the reply and observed that Corporation did not verify the existence of the school at the site. The reply confirms the fact that the Corporation did not ascertain free availability of land for construction of the marriage hall at the time of sanctioning the loan. The Corporation also failed to carry out subsequent inspection of the site to ensure that the loan disbursed was utilized for construction of the marriage hall. This was indicative of poor appraisal of the loan application and led to non recovery of loan.

Disbursement of loan on unapproved terms

2.1.13 The Corporation sanctions loans based on the prescribed terms and conditions such as interest rates, schedule of repayment, rebates etc., and the rates of interest are determined by the Board of Directors from time to time. The interest rates charged and rebate allowed by the Corporation during the period from 2006-07 to 2010-11 are detailed in ***Annexure-11***. During the period under review three types of rebates existed in the Corporation viz., basic rebate of one *per cent* for timely payment, rebate at one *per cent* to manufacturers established in Special Economic Zone (SEZ) and manufacturers carrying on export of its own products and Credit Rating rebate at 0.5 to 1.5

per cent. All the rebates would be admissible only in case of prompt payment by the borrowers. However, the net interest rate to be charged shall not be below the minimum interest rate after taking into account all the rebates allowed by the Corporation.

The deficiencies noticed in enforcing the terms and conditions of sanction of loans are brought out below:

Incorrect application of interest rate

2.1.14 The loan sanction letters stipulated that the interest rate was subject to variation as decided by the Board of Directors from time to time and/ or revised by SIDBI while sanctioning refinance. On a test check of 430 loan files, we noticed seven instances (see **Table 1**) where the Corporation extended benefit to borrowers by not charging the rate of interest as per the terms of sanction, leading to loss of income of ₹ 30.50 lakh.

Table 1

(₹ in lakh)

Sl. No.	Borrower	Loan amount	Sanction date	Net interest charged (%)	Net interest applicable (%)	Loss*	Reasons
1	Smooth Developers Pvt. Ltd.	100	2006-07	12.75	14.00	3.03	Deflection from Board approved rate
2	Magnolia Hospitality Pvt. Ltd.	200	Dec.06	10.50	11.00	7.15	----do----
3	Aaron Hotels Pvt. Ltd.	165	Sep. 09	14.00	15.75	11.57	Rate of interest applicable as per the terms of sanction was not levied
4	GEI Hamon Industries Ltd. (II)	500	Mar. 07	13.00	14.00	2.07	----do----
5	MP Paper Board & Paper Mills Pvt. Ltd.	250	Dec.06	13.75	14.50	2.24	----do----
6	Pearl Construction Bhopal	175	Nov. 06	12.00	14.00	3.91	----do----
7	Ayushman Medical & Diagnostics Pvt. Ltd. Bhopal	450	Mar. 07	13.75	14.50	0.53	----do----
Total						**30.50**	

** (principal amount outstanding at the beginning of every quarter on the basis of reducing balance method) x (differential rate of interest) x (period outstanding)*

The Corporation replied (September 2011) that it charged interest rates applicable for loans to service sector projects in line with the rate structure applicable for that period. However, the fact remained that Corporation charge interest rates that were not as per the rates approved by the Board of Directors at the time sanctioning of loan**.**

Grant of inadmissible rebate on loans

2.1.15 As per the existing practice followed by the Corporation, rebate is granted if the payments are received within the first five days of the month. Realization of dues beyond fifth of every month is treated as default and penalty at two *per cent* per annum is levied on the defaulted amount for the defaulted period**.** We observed that the practice has not been followed by the Corporation uniformly in all the cases. The Corporation discretionally extended rebate to borrowers who did not make timely repayment (within first five days) of principal and interest dues. Test check of loan files and ledger accounts of major loanees revealed that inadmissible rebate(payment was received beyond first five days of the due date) was granted in respect of 12 loanees even though they failed to repay the principal as well as interest dues within the prescribed time, which resulted in loss of ₹ 9.65 lakh.

The Corporation accepted the fact and stated (September 2011) that rebate was granted to certain cases, which have an excellent track record of repayment. However, on pointing out by audit, the Board in December 2011 approved a policy for granting rebate for timely payment within first five days of the due date.

Extension of rebate to ineligible borrowers

2.1.16 Rebate of one *per cent* was allowed in cases of SEZ and export oriented units. Out of 430 loan files examined, we noticed four instances of granting of rebate which did not meet these criteria. This has resulted in loss of income of ₹ 20.65 lakh. Out of these case, a loss of ₹ 11.06 lakh observed in one case which is discussed below.

➢ The Corporation sanctioned two term loans of ₹ 2.75 crore and ₹ 2 crore to Gajra Differential Gears Pvt. Ltd. in Dewas during March 2005 and February 2008 at the rate of 13 *per cent* and 13.75 *per cent* respectively. The borrower unit availed the first loan in full and ₹ 1.95 crore out of the second loan. The loans were not repaid as per the repayment schedule. The Recovery Committee Meeting in its meeting held in July 2008, decided to allow rebate ₹ 11.06 lakh for the period from September 2008 to June 2009. We noted that as per the interest rate structure adopted by the Corporation the rebate of one *per cent* on term loan would be provided on timely repayment of loan by export oriented units and additional rebate of one *per cent* would be granted to only those concerns which have repaid their earlier term loan(s) well in time. In terms of the rate structure, the unit was, thus, not eligible for rebates as it had defaulted in repaying its loan accounts. The decision to allow rebate of one *per cent* for timely repayment of loan and an additional one *per cent* for being in export business, was irregular in view of the regular default committed by the borrower. Thus, the Corporation extended an undue favour to the borrower by allowing the rebate of ₹ 11.06 lakh during the period of default.

The Corporation replied (September 2011) that the decision to grant additional rebate was taken by the Recovery Committee after considering the overall track record and specific circumstances of the case. As the additional rebate was allowable only to loanees who repaid the loans in time and the proceedings of the Recovery Committee can only be subservient to the existing practice, policy and guidelines approved by the Board of Directors in this regard.

Improper grant of loans

2.1.17 As may be seen from ***Annexure 12***, members of the same family living in at the same address had availed off two loans of ₹ 30 lakh each in the name of Bhagirath Cold Storage Pvt, Ltd and Mama ice and cold storage Ltd, on 29.3.2009 and 31.3.2009. The prime security and additional security offered for both the loans were on and same property of free hold land and building constructed there on. While appraising the applications which happened almost simultaneously, the BDC, Dewas, in the loan appraisal note, stated that the loanee for the second loan granted on 31.3.2009 was first time loanee. Since both the applications were processed simultaneously the fact that the same property has been offered by the borrowers as prime security and additional security could not have escaped the attention of the appraisers. Not only did the appraisers overlook the fact of the same property being offered as security, the appraisal committee further stated in the appraisal note second application for loan that the borrowers were fresh applicants. Sanctioning the second loan on the same property pledged as security for the first loan was improper as the appraisal committee did not value the pledged property so as to ensure that the value of the pledged property covers both the loans**.** Up to June 2011 no repayment has been made by the borrower and the total outstanding in both the loans was to the tune of ₹ 29.73 lakh and ₹ 33.57 lakh.

- Similarly, the same family members obtained two loans in the name of Dev Hospitals for an amount of ₹ 75 lakh and in the name of Choudhary Hospital for an amount of ₹ 25 lakh. The above loans were sanctioned in March 2009 and May 2010. For these two loans as may be seen from ***Annexure 12,*** the security offered was one and same. While appraising the application for the second loan sanctioned in May 2010 the appraisal committee did not consider the fact of the same property being offered as security since the registered document of the property pledged as a security for the loan sanctioned in March 2009 was already available with the Corporation. Out of the above loans an amount of ₹ 97.77 lakh is outstanding with a default amount of ₹ 10.77 lakh.

Dues of ₹ 1.61 crore were outstanding on loans disbursed to promoters of the same family.

Thus, the inappropriate appraisal of loan applications by the appraisal committee resulted in undue favour of sanctioning of loans on the same property more than once and also resulted in non recovery of loans of ₹ 1.61 crore.

- An amount of ₹ 1.20 crore was sanctioned to Sun Petpack Pvt. Ltd, Jabalpur in April 2000 for meeting its working capital requirements. The unit failed to repay the loan according to the repayment schedule and the loan was rescheduled twice and an amount of ₹ 89.51 Lakh was outstanding in July 2006. Without considering the default in repayment of loan and the reschedulement of loans thereof the Corporation further sanctioned loan of ₹ 30 lakh in July 2006, ₹ 25 lakh in 2007, ₹ 1 crore in November 2009 and ₹ 65 lakh in August 2010. By the end of March 2011, an amount of ₹ 1.01 crore was outstanding with a default of ₹ 26.64 lakh. Had the appraisal committee considered the record for repayment of loans by the borrowers they would not have extended the undue benefit of sanctioning of loans every year.

The Corporation replied (September 2011) that no undue favour was provided to the loanee by sanctioning the loans. The fact remained that despite borrower was continuously defaulting in payment further loan was sanctioned and rescheduled frequently.

Sanction and disbursement of loans

2.1.18 The loans are sanctioned by the Corporation after approval of the loan appraisal by the Loan Committees. The documentation is to be completed within nine months from the date of sanction. The full amount of loan was to be availed within a period of 15 months from the date of sanction and in case of non-availment the balance loan would be automatically cancelled. The adequacy of funds towards sanctioned loans is planned at the time of disbursement of loans as the borrowers avail the loan at different stages of implementation of financed project. At the time of disbursement, the Corporation assesses the availability of funds with it and gets additional funds through refinance from SIDBI/HUDCO and generates funds through issue of bonds.

Target and achievement of sanction and disbursement

2.1.19 The Corporation set targets for sanction and disbursement of loans every year. The achievements against the targets for the period from 2006-07 to 2010-11 are detailed in ***Annexure-13.*** We observed that the Corporation could not achieve the targets of sanction and disbursement during the years 2007-08, 2009-10 and 2010-11.

Decline in support to micro and small enterprises

2.1.20 SIDBI, in its report titled ‘SIDBI Report on Micro Small and Medium Enterprises (MSME) Sector - 2010’, identified pulse processing, engineering goods, leather toys, cotton ginning, cattle feed, handloom and power loom as the major industries in the State of Madhya Pradesh. The Corporation, however, sanctioned only ₹ 353.84 crore to micro and small sector enterprises, which constituted only around 34 *per cent* of the total assistance provided during the five-year period. Audit scrutiny further revealed that the loan sanctioned to micro units fell from ₹ 14.36 crore in 2007-08 to ₹ 9.51 crore in 2010-11 and that for small units declined from ₹ 76.70 crore in 2006-07 to ₹ 52.93 crore in 2010-11. The actual disbursement to small enterprises also declined from ₹ 72.59 crore in 2006-07 to ₹ 38.22 crore in

2010-11. On the other hand, the target and achievement in respect of Commercial Real Estate (CRE) and large units increased from ₹ 30.53 crore in 2006-07 to ₹ 96.36 crore in 2010-11 even though these units did not belong to the priority sector. The Corporation has, thus, been moving away from its objective of assisting micro and small enterprises and started focusing more on assisting large enterprises.

The Corporation accepted (September 2011) that it provided 34 *per cent* of the total disbursements to MSME sector during the last five years and stated that new business potential is available in the real estate sector. Further, banks posed serious competition for lending to SME in the post-liberalization era.

While sanctioning the loan, the Corporation should not lose sight of the basic objectives for which it was set up and appropriately plan methodologies of functioning in a competitive environment.

Delay in sanctioning loans to eligible borrowers

2.1.21 The Loan Committee(s) or the Board of Directors sanction(s) loans based on the feasibility reports/ appraisal notes put up by Field Offices of the Corporation. To achieve the objectives enshrined in the loan policy formulated on 13 June 2008, the Board of Directors, in its 392nd meeting (June 2008), prescribed procedure-related guidelines for disposing of all loan proposals in a defined time frame, *viz.*, 30 days for loans up to ₹ 1 crore and 45 days for loans above ₹ 1 crore. **Table 2** indicates the delay in sanctioning of loans before and after the formulation of loan policy by the Corporation.

Table 2

(₹ in crore)

	Before 13 June 2008		**After 13 June 2008**	
	No. of loans	**Value of loans**	**No. of loans**	**Value of loans**
Loans below ₹ 1 crore				
Total loans sanctioned	673	89.73	554	102.60
Loans sanctioned with delay of more than 30 days: 31-60 days 61-90 days 91-150 days Above 150 days	 90 31 23 15	 17.64 7.41 5.20 2.62	 91 39 27 17	 18.16 12.63 8.62 5.39
	159	**32.87**	**174**	**44.80**
Percentage of value of loans with delay		**36.63**		**43.66**
Loans above ₹ 1 crore				
Total loans sanctioned	66	228.65	171	586.50
Loans sanctioned with delay of more than 45 days: 45-60 days 61-90 days 91-150 days Above 150 days	 5 5 2 3	 20.65 11.85 2.30 7.70	 20 35 24 9	 65.10 113.30 82.55 60.75
	15	**42.50**	**88**	**321.70**
Percentage of value of loans with delay		**18.59**		**54.85**

From the above, it could be seen that loans below ₹ 1 crore were sanctioned with the period of delay ranging from 31 to 311 days and with a delay ranging from 46 to 378 days on loans above ₹ 1 crore were sanctioned. In case of loans below ₹ 1 crore sanctioned after implementing the loan policy, the maximum delay occurred in the range of 31 to 60 days (91 loans valued at ₹18.16 crore) while in case of high-value loans, the delay was more pronounced in the range of 61 to 90 days (35 loans valued at ₹ 113.30 crore). The delay on loans below ₹ 1 crore increased from 36.63 to 43.66 *per cent* and that on bigger loans went up from 18.59 to 54.85 *per cent* during the period after implementation of loan policy. Thus, it is evident that even after the formulation of loan policy in June 2008, the Corporation did not dispose of the loan applications within the prescribed time.

The Corporation stated (September 2011) that the process of technical appraisal, valuation, rating, market report, legal scrutiny and presentation to sanctioning authority required at least 30 to 60 days. However, the time frame for disposal of loan applications was prescribed in the loan policy after considering all the relevant factors for processing and appraising of loans. Further, the percentage of delay after formulation of loan policy increased from 37 *per cent* to 44 *per cent* in case of loans sanctioned below ₹ 1 crore and from 19 *per cent* to 55 *per cent* in case of loans above ₹ 1 crore.

Recovery and follow up of loans

2.1.22 On disbursement of the loans, a schedule of recovery is intimated to the borrower in order to ensure timely recovery of loan. In case of default in repayment of loans, the Corporation initiates three kinds of actions as given below:

- take over and sale of the unit and recovery of the loan out of the sale proceeds,
- filing a civil suit in a court of law or issue of Revenue Recovery Certificate through the District Collector for initiating recovery action against the assets of the borrower,
- one time settlement whereby the borrower repays a significant portion of the loans and the rest of the loan remained unpaid is borne by the Corporation as a loss.

The **Table 3** below provides details of recovery effected by the Corporation during the last five years ending 2010-11.

Table 3

(₹ in crore)

Particulars	2006-07	2007-08	2008-09*	2009-10	2010-11
Amount due for recovery at the beginning of the year	94.47	73.31	6.06	0.66	3.28
Amount falling due during the year	95.56	105.00	107.71	135.32	149.00
Total amount due for recovery.	190.03	178.31	113.77	135.98	152.28
Target fixed for recovery	100.00	120.00	108.00	125.00	146.00

Particulars	2006-07	2007-08	2008-09*	2009-10	2010-11
Percentage of recovery target fixed to total amount due for recovery.	52.60	67.30	94.90	91.90	95.88
Amount recovered	116.72	122.83	113.11	132.70	147.06
Amount to be recovered at the end of the year	73.31	55.48	0.66	3.28	5.22

**** Opening balance figures for 2008-09 have been recast on implementation of restructuring package by the State Government***

As may be seen from the above table the target for recovery in the year 2006-07 and 2007-08 were at a low level of 53 *per cent* and 67 *per cent* of the amount due for recovery in the respective years. The low percentage of fixation of recovery target resulted in accumulation of dues pending for recovery to the tune of ₹ 128.89 crore at the end of 2007-08. The State Government had to come to the rescue of the Corporation by way of restructuring where by an amount of ₹ 113.50 crore of NPA pending for recovery was taken over by them. This has improved the position of the amount due for recovery during the three years ending 2010-11. Even after the restructuring by the State Government, the Corporation did not fix the recovery targets at 100 of the amount due for recovery in each of the years and outstanding loan to be recovered has increased from ₹ 0.66 lakh in 2008-09 to ₹ 5.22 crore in 2010-11.

Recovery through One Time Settlement scheme

2.1.23 With the objective of realizing its long overdue, the Corporation adopted a One Time Settlement (OTS) scheme whereby it was agreed upon by the borrowers to pay up a portion of the outstanding amount at the time of settlement. **Table 4** shows the outstanding dues, the amount at which these dues were finally settled and the loss suffered by the Corporation during the period 2006-07 to 2010-11 as a result of OTS.

Table 4 (₹ in crore)

Year	No. of cases settled	Total outstanding at the time of settlement	Amount settled	Loss on settlement	Amount received against settlement	*Per cent*age of loss to total outstanding
Before financial restructuring						
2006-07	94	18.63	10.52	8.11	9.30	50
2007-08	65	15.52	10.89	4.63	10.20	30
After financial restructuring						
2008-09	38	4.54	3.05	1.49	1.63	33
2009-10	29	8.31	4.18	4.13	2.89	50
2010-11	29	17.99	3.88	14.11	0.96	78
Total	**255**	**64.99**	**32.52**	**32.47**	**24.98**	**50**

Audit scrutiny revealed that

- the Corporation sacrificed ₹ 32.47 crore in settlement of dues worth ₹ 64.99 crore in respect of 255 loan accounts during the period under review

- the percentage of loss to total outstanding at the time of OTS increased from 50 *per cent* in 2006-07 to 78 *per cent* in 2010-11 and
- the Corporation suffered loss of ₹ 19.73 crore on settlement of its dues during the three-year period from 2008-09 to 2010-11 despite implementation of financial restructuring package.
- the proportion of the loss suffered as a result of OTS has reached an alarming proportion of 78 *per cent* of the amount outstanding at the time of settlement which were in the range of 30 to 50 *per cent* during the period 2006-07 to 2009-10.

Recovery through Revenue Recovery Certificates

2.1.24 323 Revenue Recovery Certificates (RRC) issued under Section 32-G of the SFC Act, through the District Collectors, for recovery of its NPA amounting to ₹ 47.25 crore was pending as on 31 March 2011. This includes RRCs amounting to ₹ 25.93 crore issued prior to 2006-07. The non-recovery/delay in recovery of outstanding dues despite issuing of RRC indicates the laxity on the part of the Corporation to effectively pursue and follow up these cases with the Revenue authorities. We are of the view that further delay in monitoring and recovering these old dues through RRC could translate these dues into irrecoverable.

Delay in initiating recovery action against chronic defaulters

2.1.25 As on 31 March 2011, 1398 term loan accounts (other than CRE finance) involving principal amount of ₹ 454.75 crore and interest of ₹ 1.70 crore were outstanding for recovery. This included 295 accounts with principal amount of ₹ 3.65 crore and interest of ₹ 1.57 crore in default. Of the default amount, there were 111 sub-standard and doubtful assets (NPA) valuing ₹ 2.82 crore towards principal and ₹ 0.91 crore towards interest. With regard to loans disbursed to CRE sector, 20 out of 99 outstanding loan accounts amounting to ₹ 0.27 crore were in default. Action for recovery of dues from chronic defaulters was initiated belatedly, as discussed below.

- The Corporation sanctioned a term loan of ₹ 5 crore at 11 *per cent* interest in November 2007 to Agarwal Indotex Ltd, While the unit was in default of repayment of loan the unit applied for a fresh working capital loan of ₹ 5 crore in December 2008 and the Corporation sanctioned the same in July 2009. Interest was payable at the rate of 14.5 *per cent*. The working capital loan of ₹ 5 crore was secured by mortgage of fixed assets ranking paripasu with the charge already created in favour of SBI for a term loan of ₹ 11.66 crore availed from SBI. The unit again defaulted on repayment of the working capital loan and requested the Corporation to adjust the overdue interest out of fixed deposit of ₹ 50 lakh lying with the Corporation as additional security. The Corporation in December 2009 rescheduled both the term loans and working capital loan. Despite rescheduling the default continued and the loan was further rescheduled in March 2010. As the unit did not make payment as promised in the agreement of March 2010, the working capital loan was again rescheduled in October 2010. At the time of third rescheduling, an amount of ₹ 76.87 lakh was in default and ₹ 10.29 crore was outstanding on both the loan accounts. The Corporation was also informed that the unit was default in repayment of ₹ 56 lakh on the term loan availed form SBI. The Corporation served a legal notice in September 2010 asking the unit to clear all the loans failing which legal action for take over and sale of the property under SFC Act, 1951 was to be initiated. In spite of three rescheduling of loans and the unit was continuously defaulting in repayment, the Corporation did not proceed further to take over the property and recover the dues out of sale of property. Instead, it approved the proposal to adjust the over dues out of the fixed deposits pledged with the Corporation and against upfront payment of ₹ 22.14 lakh for liquidating the dues. The laxity of the Corporation led to a continued default of outstanding of ₹ 9.95 crore on both the loan accounts as on June 2011.

The Corporation replied (September 2011) that the loan was rescheduled to enable to unit to tide over the exceptional circumstances caused by fire and the banks are also provided relief to the borrowers by rescheduling the loans. We observed that the loans was rescheduled twice even before the fire occurred and there was no improvement in repayment despite rescheduling.

➢ Shehnai Club and Resorts Pvt. Ltd was sanctioned (February 2008) a term loan of ₹ 6.50 crore at an interest rate of 13.75 *per cent* for setting up of amusement park, water park, resort hotel, marriage garden and gymnasium at Indore. An amount of ₹ 6.40 crore was released (March - October 2008) against the prime security of fixed assets and was to be repaid after a moratorium period of 12 months in 28 quarterly installments from April 2009 to January 2016. The borrower defaulted (April 2009) in repayment of first installment of principal and interest as the cheque issued by him was dishonoured. The default continued during the period from April 2009 to March 2010 and the Corporation issued legal notices to the borrower for recovering its dues. It, however, re-scheduled (March 2010) the loan on the request of the borrower when an amount of ₹ 6.59 crore was outstanding and ₹ 69.71 lakh was in default. The borrower continued to default on repayment even after re-scheduling. The Corporation took over the mortgaged assets in March 2011. Soon after, the borrower requested the Corporation for releasing one of the mortgaged properties, assuring them to repay the loan amount from the sale proceeds of the released property. The Corporation released the additional property after obtaining cheques for ₹ 1.45 crore as the realizable value of the property was considered enough to cover the dues. Meanwhile, the borrower again requested for re-scheduling the loan and the Corporation acceded to the request after entering into an agreement (31 March 2011) with the borrower for repayment of ₹ 6.14 crore in 24 quarterly installments commencing from April 2011. Soon after re-scheduling of loan, cheques amounting to ₹ 63 lakh issued by the borrower and deposited by the Corporation were dishonoured on presentation (April 2011). We observed that the Corporation failed to initiate firm action for recovery, which resulted in an amount of ₹ 6.37 crore remaining outstanding and ₹ 51.92 lakh in default (June 2011).

In its reply, the Corporation stated (September 2011) that re-scheduling of loan was provided considering the overall scenario and action would be taken to recover the amount. The fact remains that Corporation failed to recover the dues after rescheduling the loan.

➢ The Corporation released (April – November 2006) a term loan of ₹ 18 lakh to Bablu Warehouse at the rate of 11 *per cent*, repayable in 26 quarterly installments commencing from October 2006, for construction of a warehouse for storing vegetables at Rajgarh district. The loan was sanctioned against prime security of land and building valuing ₹ 30 lakh. The borrower defaulted in repayment of loan citing lack of working capital and non-availability of capital investment subsidy from National Bank for Agriculture and Rural Development (NABARD).

The Corporation served (August 2007) a legal notice asking the borrower to repay the outstanding dues and later decided (October 2007) to take possession of the unit under Section 29 of the SFC Act. It published press advertisement for sale of the unit (October 2007) but did not receive any offer. In a discussion with the representatives of the Corporation (November 2007), the borrower undertook to repay the dues in piece-meal installments. As this was not honoured and no payment received, the Corporation issued (February 2008 and March 2009) two new press advertisements for sale of the unit and received the best offer of ₹ 21 lakh from a party against the latter advertisement. The offer was referred to the borrower (April 2009) for submission of better offer (if any) by him and providing an option to clear all dues within 10 days. In response, the borrower undertook to repay the overdue within six months, which the Corporation accepted. However, the borrower did not honour his commitment and instead expressed (April 2011) his willingness to pay ₹ 12.40 lakh towards one-time settlement of the overdue but the Corporation's Recovery Committee rejected the offer on the ground that it did not cover even the principal dues.

We observed that the Corporation was liberal in allowing the defaulter to get away with his repayment obligations on more than three occasions and by not finalizing the sale of unit in March 2009 for ₹ 21 lakh. As of June 2011, the Corporation was yet to recover an outstanding amount of ₹ 20 lakh (including principal of ₹ 14.75 lakh in default) and the possibility of recovery in the circumstances was rather bleak. The failure to realize its overdue in case of a unit that defaulted in repayment for over five years even though their assets were taken over in October 2007 reflected poorly on the recovery mechanism of the Corporation.

The Corporation stated (September 2011) that they were attempting to recover the outstanding dues.

➢ The Corporation released (August 2006) an assistance of ₹ 10.65 lakh at 11 *per cent* to Yadav Restaurant for setting up a restaurant at Ratlam district. The loan was sanctioned against security of land and building and hypothecation of furniture and fixture and was repayable in 30 quarterly installments commencing from March 2007. The Corporation released (August - October 2006) another loan of ₹ 10.35 lakh to Yadav Sweets, an associate concern of the borrower, at 11 *per cent* that was repayable in 30 quarterly installments commencing from February 2007. Both the units did not operate profitably and defaulted in repayment of dues and the Corporation issued demand notices (September and December 2007) for recovering its dues. In a review meeting convened by the Corporation during December 2008, the borrower undertook to repay the dues by January 2009. The loan account was also re-scheduled (March 2009), revising the repayment period from September 2009 to June 2015 in respect of the first loan and from August 2009 to May 2015 in respect of the second loan; the overdue interest was treated as loan. However, default continued and the borrower did not deposit the dues in accordance with the terms of re-scheduling. The Corporation served a legal notice (September 2009) recalling the entire outstanding loan but the borrower approached the Corporation (March 2010) with a one-time settlement proposal of ₹ 12 lakh for the first loan and ₹ 11.75 lakh for the second loan, payable in nine months. The borrower could deposit only ₹ 2.20 lakh towards settlement of dues.

Concerned with mounting default and inability of the borrower to repay despite acceptance of one-time settlement, the Corporation issued another legal notice (January 2011) under Section 138 of Negotiable Instruments Act recalling the entire loan amount with cancellation of one-time settlement. In response, the borrower submitted a cheque of ₹ 11 lakh in December 2010 and another cheque of ₹ 12 lakh in January 2011 but was returned by the bank on presentation with remarks that the signature of the party was different. The Corporation finally took over both the units but returned possession (June 2011) to the borrowers on *supurdgi*[21] basis after the borrowers deposited ₹ 4 lakh with the Corporation. The borrowers also agreed to deposit post-dated cheque of ₹ 2.40 lakh each in seven monthly installments from July 2011 to January 2012. As of July 2011, principal amount of ₹ 17.18 lakh was in default on the two loan accounts. We observed that the Corporation was unable to recover its dues even after a lapse of five years from the date of default though it legally took over the assets of the borrowers valued at ₹ 16.75 lakh. Evidently, the inordinate delay in recovering the dues by encashment of securities has put the Corporation at an increased risk of non-realization due to inadequate security cover.

The Corporation stated (September 2011) that it was closely monitoring the accounts of the unit and has been receiving payment in piece-meal basis.

Management of non-performing assets

2.1.26 The financial institutions needs to keep its NPA as low as possible by regularly making the recovery of its loan and should keep its portfolio as per

[21] *Supurdgi – the process of handing over assets after obtaining written promise.*

the prudential norms set by the RBI/SIDBI. As per the RBI classification, the loans are categorized as follows:

Loan classification	
Standard assets	Where payments are regular
Sub-standard assets	Where loan as well as interest remains overdue over a period of three months but not exceeding two years
Doubtful assets	Where loan as well as interest remains overdue beyond two years
Loss assets	Where losses are identified but not written off at the end of the year

All assets other than standard assets are known as Non Performing Assets (NPA). **Table 5** indicates net outstanding loans, and NPA of the Corporation for the five years ended 2010-11.

Table 5

(₹ in crore)

		2006-07	**2007-08**	**2008-09**	**2009-10**	**2010-11**
Outstanding loans		397.46	297.52	391.24	406.73	463.45
NPA	Sub-standard assets	26.78	0	8.15	9.20	6.03
	Doubtful assets	55.93	0	0	0.26	4.17
	Loss assets	30.31	0	0	0	0
	Total NPA	**113.02**	**Nil**	**8.15**	**9.46**	**10.20**
Net outstanding loans (standard assets)		284.44	297.52	383.09	397.27	453.25

As may seen from the above table despite the State Governments' initiative to improve the financial position of the Corporation in 2007-08 the position started deteriorating from 2008-09 and the NPA of the Corporation has reached a level of ₹ 10.20 crore in 2010-11 indicating the Corporation's weakness to effectively monitor the NPA portfolio.

Financial restructuring by the State Government

2.1.27 As the Corporation was facing acute shortage of funds to meet its repayment obligations, increasing business volume, requirement of funds for retiring high interest bearing bonds and non availability of funds due to accumulation of high NPA, the Corporation submitted a proposal to State Government for financial restructuring which was approved in March 2008. The terms and conditions of the financial restructuring, inter alia were as follows:

- The State Government loan of ₹ 60 crore with interest rate of 8.5 *per cent* was converted into equity capital,
- The NPA portfolio of ₹ 113.50 crore was taken over by the State Government and cash support of ₹ 113.50 crore was given to the Corporation.
- The NPA amount of ₹ 113.50 crore was required to be followed up by the Corporation for recovery and remit the recovered amount once in a quarter till it reaches ₹ 85.12 crore to the State Government by opening a separate bank account. However, the Corporation remitted only an amount of ₹ 20.30 crore out of the recovered amount of ₹ 39.55 crore to the State Government till March 2011.
- The balance amount of ₹ 11.32 crore was invested by the Corporation in the fixed deposits with the commercial banks. Further an amount of ₹ 56.02 lakh earned as interest on the fixed deposits up to 31 March 2011 was also retained by the Corporation.

The Corporation replied (September 2011) that the funds are not required to be remitted on quarterly basis as per MoU and it is gradually remitting the recovered funds to the State Government because five years' time period has been given for recovery of the portfolio. The fact remained that the provision of the agreement signed with the State Government for transfer of NPA expressly provided for remitting the recovered funds on quarterly basis.

Loss on sale of assets taken over in case of default

2.1.28 The Corporation has the right to take over the mortgaged assets of the assisted units/ borrowers under Section 29 of the SFC Act in case of default in repayment of loans. Taking over the assets is resorted to after issuing demand/ legal notices to the defaulter for payment of dues. In case of taking over the assets of the borrowers, the assets are first taken over symbolically but the possession is handed back to the borrower on *supurdgi* basis. In case of continued default, the assets are physically taken over by the Corporation. ***Annexure-14*** indicates the details of assets taken over by the Corporation during the period from 2006-07 to 2010-11**.** We observed that in respect of 10 cases, the action for taking over the assets was initiated after a period of three years from the date of issue of legal notice for repayment of loans.

The delay in finalizing the sale also added to the Corporation's expenditure (₹12.83 lakh) besides causing depreciation in the value of the assets. Further analysis revealed that the Corporation could finalize sale and recover dues amounting to ₹ 11.07 crore from 49 out of 120 units taken over during the five-year period. In respect of nine loan accounts where ₹ 4.47 crore was in default at the time of take over, the assets were taken over symbolically and returned back to the borrowers on *supurdgi* basis. The Corporation could not recover ₹ 5.10 crore on sale of 23 units as their sale proceeds did not cover the amount of default.

The Corporation replied (September 2011) that the asset taken over is handed back after the borrower deposits substantial payment of dues. There were not more than 50 units available for sale as on 31 March 2011. The records indicated that 62 units that were available for sale as on 31 March 2011 and an amount of ₹ 9.59 crore in respect of 62 units are yet to be recovered.

A case where the Corporation took over the assets but was yet to finalize the sale and recover its dues is discussed below.

➢ The Corporation sanctioned (November 2006) a loan of ₹ 60 lakh at 13 *per cent* interest to Madhu Aluminium (Pvt.) Ltd., Indore for meeting the working capital margin money requirement against security of fixed assets already mortgaged while availing assistance earlier during June 2004 (₹ 1 crore) and August 2005 (₹ 1.25 crore). The loan was repayable in 20 quarterly installments from April 2007. Another loan of ₹ 75 lakh at 14.50 *per cent* interest was sanctioned to the unit in January 2009 for meeting additional working capital margin money requirements against the same security. Further charge on the security was also created on the residential flat of promoters, valued at ₹ 11.70 lakh and fixed deposit receipts worth ₹ 26 lakh. The total value of security mortgaged worked out to ₹ 4.70 crore against the outstanding dues of ₹ 2.23 crore. The borrower defaulted (December 2009) in repayment of loans and legal notice was issued in December 2009 calling the borrower to pay up the dues of ₹ 2.35 crore. As the default continued, the Corporation took over (February 2010) the assets for recovering the dues. The borrower intimated (March 2010) that they were making all efforts to sell some property (other than that mortgaged) and also suggested to liquidate the fixed deposit receipts pledged with the Corporation and requested for re-scheduling the loans. In April 2010, the assets taken over were returned to the borrower after obtaining *supurdgi* signed by the borrower and the three loan accounts were re-scheduled (July 2010). Even after re-scheduling, the borrower defaulted in making payments and the assets were again taken over by the Corporation (November 2010) for recovering outstanding dues. The Corporation advertised the sale of mortgaged property. At this juncture, the Central Excise authorities in Pithampur district intimated (December 2010) the Corporation that an amount of ₹ 2.64 crore was in arrear and recoverable from the borrower. Meanwhile, the realizable value of the property was valued at ₹ 3.12 crore, which was less by ₹ 1.63 crore after considering the outstanding amount of ₹ 2.12 crore payable to the Corporation and ₹ 2.64 crore payable to Excise department. The Corporation received 13 offers against the press advertisement, the highest offer being ₹ 4.11 crore. The Corporation, however, re-advertised sale of the property indicating the reserve price of ₹ 3.12 crore but only one offer was received. The sale was then re-advertised. We observed that even at the known offered price of ₹ 4.11 crore the company stood losing ₹ 0.64 crore after meeting the excise duty commitment of 2.64 crore. Thus, the Corporation could not recover its dues despite re-scheduling of the loans, foregoing interest thereon after taking over the assets in November 2010 and it could not also complete sale of the asset taken over despite retendering.

In reply, the Corporation stated (September 2011) that it was in the process of finalizing the sale of unit.

Re-scheduling of loans

The Corporation lost ₹ 71.09 lakh due to non levy of penalty on loans re-scheduled.

2.1.29 The Corporation reschedules the loans of borrowers in order to enable them to tide over their financial problems in repayment of loan installments. The re-scheduled amount included the principal outstanding and/ or in default. At the time of re-scheduling loans, the Corporation insists the borrower to pay up the interest overdue and/ or in default and an agreement is entered into with the borrower for prompt payment of future installments of principal and interest. The details of loans re-scheduled during the period 2008-09 to 2010-11 are provided in ***Annexure-15.***

Analysis revealed that out of 64 loans re-scheduled during the year 2010-11, 21 loans were re-scheduled more than once. The frequent re-phasing of loan accounts indicated a bad trend as it instigates the borrowers to become habitual defaulters and later request for further re-scheduling. It was only in May 2010 that the Corporation issued a circular to all its Field Offices directing them to charge one *per cent* extra in case of loans re-scheduled for the second time, based on the instruction of the Managing Director (April 2010). The Corporation failed to levy the penalty in case of loan accounts that were approved for re-scheduling during the year 2010-11, resulting in loss of ₹ 71.09 lakh.

The Corporation stated (September 2011) that the number of cases re-scheduled was not substantial and re-scheduling the loans yielded better return to the Corporation *vis-à-vis* taking coercive action. It added that re-scheduling was not a normal or routine practice. As discussed above, re-scheduling was done every year and the amount of loans re-scheduled was substantial during the five-year period (₹ 169.01 crore). Further, re-scheduling of loans caused postponement of recovery of principal and interest dues.

Financial Management

Sources and utilization of funds

2.1.30 The Corporation managed its finance through infusion of share capital from the State Government and regular borrowings from SIDBI and Housing and Urban Development Corporation (HUDCO**).** During the years 2009-10 and 2010-11, the Corporation mobilized funds amounting to ₹ 71.42 crore though private placement of bonds against the guarantee given by the State Government.

Funding by the State Government

2.1.31 The Corporation entered into a Memorandum of Understanding (MoU) with the State Government every year setting out long term and short term goals for achievement. The long-term goals, *inter alia*, aimed at reducing the dependence on Government assistance in future and payment of dividend to the Government on its investment. During the period from 2006-07 to

2010-11, the State Government invested equity capital of ₹ 269 crore to sustain the operations of the Corporation. However, Corporation did not pay any return on the Government funding. Of this corpus, the Corporation invested (December 2006/ January 2007) ₹ 185 crore in two power generating Companies based on a decision taken by its Board of Directors (October 2006). The Corporation, however, was yet to receive any dividend or appreciation on the investment as project of power companies are under construction stage (September 2011).

The Corporation admitted (September 2011) that dividend could not be paid to the Government as there was no distributable surplus.

Mobilization of funds through placement of bonds

2.1.32 The Corporation has been availing refinance from SIDBI for providing assistance to small and medium enterprises. It was availing Line of Credit from HUDCO for funding to commercial real estate sector. However, the funds available under these resource streams were limited and their utilization was also restricted to the earmarked sector. The Corporation, therefore, contemplated to raise funds through alternate sources with the approval of State Government to meet its annual disbursement outlay of ₹ 200 crore for the year 2009-10. It proposed (July 2009) to raise an amount of ₹ 50 crore through placement of bonds to bridge the resource gap in resources. State Government has provided the guarantee for issue of bonds. The Board of Directors, in its 397th meeting, approved (July 2009) mobilization of funds through bonds with maturity period of five to ten years. However, an amount of ₹ 37.14 crore only could be mobilized during 2010-11 from this issue**.** In December 2010, the Board approved raising the second series of bonds worth ₹ 50 crore and the Corporation garnered ₹ 34.28 crore as application money from the issue till March 2011. The Corporation mobilized only ₹ 71.42 crore against ₹ 100.00 crore through issue of bonds during 2009-10 and 2010-11.

Failure of Capital Market Division to raise funds

2.1.33 The Board of Directors decided (June 1993) to set up a Capital Market Division for taking up newer and non-conventional financing. It also decided to under take fee-based activities such as project appraisal, public issue management, underwriting of public issues, loans syndication and other corporate advisory services. The division was also given the responsibility of appraising large-size projects with the objective of expeditiously disposing of the loan cases. We observed that it did not undertake any fee-based activity or advisory service since 1997-98. As such, the objective of establishing such a division was defeated.

Accepting the audit observation, the Corporation replied (September 2011) that fee-based activity was not taken up for a long time as a result of slowdown in economy. We observed that other SFCs such as Karnataka State Financial Corporation, Andhra Pradesh State Financial Corporation and

Kerala Financial Corporation have augmented their income generation by undertaking fee-based activities.

Ineffective internal audit

2.1.34 The internal audit department is looked after by a Manager (Accounts), who holds the post as an additional charge and reports to General Manager (Finance and Accounts). Though the existing internal audit manual (framed in 1996) stipulates that the internal audit section should be headed by a Deputy General Manager reporting directly to the Managing Director, the present reporting arrangement did not ensure its independence and objectivity. The department undertook internal audit of the field offices on a rotational basis as per audit plan. However, its coverage and scope was limited to collecting data on loans, *viz.*, new loans sanctioned, disbursement of loans, legal notices issued, office expenses incurred, maintenance of registers, withdrawal of funds from banks, interest subsidy received, cheques dishonored, loans account settled etc. We observed that only 70 *per cent* of the units planned were audited in the last five years ended 2010-11. The departments in the Head Office and the Capital Market Division were kept outside the purview of internal audit. There were no effective suggestions/ recommendations in the audit reports to improve the processes and operations of the Corporation. Further, the internal audit reports were not placed before the Audit Committee/ Board of Directors. A case of misappropriation of ₹ 6.46 lakh by an employee occurred in Indore branch during the period of performance audit. We observed that there is a need to have a systemic change in procedure and policy guidelines of the existing internal audit system.

The Corporation stated (November 2011) that it was revising its internal audit manual.

Information Technology system

2.1.35 The Corporation has a Systems Department with several computer terminals and software for undertaking activities such as loan accounting, financial accounting, cash flow and fund flow statement preparation, word processing, payroll, MIS reporting, data transfer between offices, website management, etc. The FO/BDC's send the data in batch mode through internet mail attachments which is being verified at head office and integrated (merged and clubbed) into Corporate database. The data is segregated FO/BDC wise and is sent back to the FO/BDC in similar manner every fortnight to effect changes occurred at the head office level. We observed that the Corporation did not have a formal written down Information Technology (IT) policy document. The system also did not allow automatic categorization of loans into small scale or medium scale industry based on the cost of purchase of plant and machinery, calculation of interest on loans based on the date of realization of cheques and incorporation of various legal formats.

The Corporation stated (September 2011) that the revamping of the IT system was in progress and a web-based IT system for enabling integration of all activities would be completed by 31 March 2012.

Conclusion

- **The Corporation failed to play a supportive role in industrialisation of backward areas by bringing innovative schemes of financing to promote, encourage and motivate entrepreneurs to set up industries in backward areas to attain the objective of industrial policy of the State;**
- **The Corporation did not develop and put in place a mechanism whereby the rates of interest offered by the commercial bank and other financial institutions on the term loans and working loans are compared periodically so as to make the Corporation's rate of interest competitive;**
- **The Corporation exceeded its norm of exposure in sanctioning loans to CRE sector;**
- **The Corporation did not have a policy regarding grant of rebate for timely repayment of loan and it discretionally allowed rebate even in case of delayed repayments;**
- **The Corporation delayed the sanctioning of the loans beyond the time permitted by the Board;**
- **The loss on account of OTS with the defaulting loanee were increasing from year to year and**
- **The loans were rescheduled frequently without any limit on the number of rescheduling resulting in delayed recovery of loans.**

Recommendations

To improve its functioning, the Corporation may

- **bring out schemes of financing to attract investors to backward areas in order to fulfill the objectives of industrial policy;**
- **institute a mechanism for making its interest rates competitive;**
- **limit its exposure to the CRE sector to the approved norms and start concentrating on the micro, small and medium enterprises in the backward areas of the State;**

- **adhere to time limits fixed by the Board for sanctioning of the loans;**
- **consider putting a ceiling of maximum amount of loss than can be incurred in each case of one time settlement and**
- **put a ceiling on the number of times a loan can be rescheduled.**

2.2 MP Poorv Kshetra Vidyut Vitaran Company Limited *and* MP Paschim Kshetra Vidyut Vitaran Company Limited

Performance Audit of Power Distribution Utilities in Madhya Pradesh

Executive Summary

The power distribution in the State of Madhya Pradesh is carried out by three Power Distribution Companies (Discoms) namely Madhya Pradesh Madhya Kshetra Vidyut Vitaran Company Limited (Madhya Discom), Madhya Pradesh Poorv Kshetra Vidyut Vitaran Company Limited (Poorv Discom) and Madhya Pradesh Paschim Kshetra Vidyut Vitaran Company Limited (Paschim Discom) which were incorporated on 31 May 2002 under the Companies Act 1956.

During 2006-07, 19,706 MUs of energy was sold by the three Discoms which increased to 25,468 MUs, registering an increase of 29.24 per cent during 2006-11. As on 31 March 2011, the State had distribution network of 5,84,949 CKM, 2,680 sub-stations and 2,55,207 transformers of various categories. The number of consumers was 89.85 lakh. Based on the data relating to quantum of power sold, length of distribution network and the number of consumers, the Poorv and Paschim Discoms were selected for detailed analysis.

Distribution and network planning

Against the planned additions of 1031 sub-stations, the three Discoms added only 651 sub-stations during 2006-11.

Implementation of centrally sponsored schemes

Under RGGVY the Poorv and Paschim Discoms had not fixed target for electrification for the year 2006-07 and 2007-08. During the five years from 2006-07 to 2010-11 only 3,375 villages were electrified against a target of 4,379 villages achieving 77.07 per cent.

Operational efficiency

Due to Sub transmission and distribution losses in excess of norms fixed by MPERC, during the five years from 2006-07 to 2010-11, the two Discoms suffered a loss of revenue to the tune of ₹1490.86 crore.

Financial Management

Due to release of inadequate funds by MPSEB under Cash Flow Mechanism during the period between 2006-07 and 2009-10, the Poorv Discom had diverted ₹ 102.81 crore from funds earmarked for capital works for salary, repairs & maintenance and administrative & general expenses.

To meet the necessary expenditure the Discoms were compelled to resort to working capital loan and during the review period had borrowed ₹ 800 crore (₹ 250 crore Poorv Discom and ₹ 550 crore Paschim Discom) from Power Finance Corporation and the Paschim Discom had borrowed ₹ 2795.50 crore and Poorv Discom ₹ 996.19 crore from Government of Madhya Pradesh.

Billing and Revenue collection efficiency

The Poorv and Paschim Discoms billed only 73.21per cent to 76.79 per cent of *energy sold. In respect of the three Discoms in the State the balance dues outstanding at the end of the year increased from ₹ 3778.15 crore in 2006-07 to ₹ 6365.05 crore in 2010-11. The arrears in terms of number of months' assessment increased from 6.23 in 2006-07 to 6.63 in 2010-11.*

Incorrect estimation of agricultural consumption

Because of non compliance with the directives of the MPERC regarding provision of meters in at least 25 per cent agricultural predominant DTRs, revision of the benchmark consumption could not be achieved, thus the Paschim Discom had to forgo revenue on 286.13 MU during 2010-11.

Conclusion and recommendations

Discoms could not achieve the planned addition of substations. The two Discoms had not included a clause in the agreement for levy of interest on the mobilisation advance to contractors. While the Discoms are paying interest on loans from PFC, they granted interest free advance to contractors. The percentage of metered consumers to total consumers decreased from 75 in 2006-07 to 64 in 2010-11. Due to incorrect estimation of unmetered agricultural consumers, the Paschim Discom had to forgo revenue on short billing of 286.13 MU during 2010-11. Delay in implementation of Bachat Lamp Yojana resulted in depriving the savings in power of 86.21 MU annually in respect of Poorv Discom. The Paschim Discom had not assessed the likely savings in peak load or reduction in power purchase cost that would accrue annually upon implementation of the scheme.

The performance audit report contains five recommendations which include increasing the phase of addition of Sub-Station to the distribution network, avoiding grant of interest free mobilisation advance to contractors, speeding up the pace of rural electrification and regulating the tariff in accordance with the National Tariff Policy.

Introduction

2.2.1 Electricity is an essential requirement for all facets of our life. It has been recognized as a basic human need. It is a critical infrastructure on which the socio-economic development of the country depends. Supply of electricity at reasonable rate to rural India is essential for its overall development. Equally important is availability of reliable and quality power at competitive rates to Indian industry to make it globally competitive and to enable it to exploit the tremendous potential of employment generation. Services sector has made significant contribution to the growth of our economy. Availability of quality supply of electricity is very crucial to sustained growth of this segment.

Recognizing that electricity is one of the key drivers for rapid economic growth and poverty alleviation, the nation has set itself the target of providing access to electricity for all households in next five years.

Major responsibility for achieving the key parameters of the above said importance of electricity devolves on the distribution sector. Distribution sector is very near to people. Distribution Companies are first point of contact in the electricity sector for millions of Indians. This is the sector which provides electricity to the door step of every house hold. It serves various objectives of electricity sector such as access to electricity for all households, supply of reliable and quality power of specified standards in an efficient manner and at reasonable rates and at the same time protects the consumer interest. To achieve the above objectives, distribution Companies need to make a financial turnaround and they should be commercially viable.

In this performance audit, we analysed how far the distribution Companies (Discoms) in Madhya Pradesh planned their operations to achieve the above objectives, their financial turnaround and the problems encountered during the last five year period from 2006-07 to 2010-11.

Electricity Reforms and electricity scenario in Madhya Pradesh

2.2.2 As a part of power sector reforms, the erstwhile Madhya Pradesh State Electricity Board was unbundled (May 2002) and initially five companies (Madhya Pradesh Power Generating Company Limited, Madhya Pradesh Power Transmission Company Limited, Madhya Pradesh Madhya Kshetra Vidyut Vitaran Company Limited, Madhya Pradesh Poorv Kshetra Vidyut Vitaran Company Limited and Madhya Pradesh Paschim Kshetra Vidyut Vitaran Company Limited) were formed and later another Company (Madhya Pradesh Power Trading Company Limited) was formed. Consequently, the business of distribution of power in Madhya Pradesh is carried out by the three Discoms. These were incorporated on 31 May 2002 under the Companies Act 1956. They are under the administrative control of Department of Energy.

Vital parameters of Electricity Supply in Madhya Pradesh

2.2.3 During 2006-07, 19,706 MUs of energy was sold by the three Discoms which increased to 25,468 MUs, registering an increase of 29.24 *per cent* during 2006-11. As on 31 March 2011, the State had distribution network of 5,84,949 CKM, 2,680 sub-stations and 2,55,207 transformers of various categories. The number of consumers was 89.85 lakh. The turnover of the three Discoms was ₹ 10,874.75 crore in 2010-11 which was equal to 34.37 *per cent* and 4.00 *per cent* of the State PSUs and State Gross Domestic Product respectively. It employed 38,071 employees as on 31 March 2011.

2.2.4 Performance Audit of power sector: Performance audit on 'Power Generation Activities' was included in the Audit Report of the Comptroller and Auditor General of India (Commercial), Government of Madhya Pradesh for the year ended 31 March 2010. The Audit Report is yet to be discussed by COPU. This Performance Audit is conducted on the functioning of Power Distribution Companies in Madhya Pradesh.

Scope and Methodology of Audit

2.2.5 The present performance audit was conducted during February and June 2011 and covers the functioning of the Discoms during the period from 2006-07 to 2010-11. The Performance audit mainly deals with Network Planning and execution, Implementation of Central Schemes, Operational Efficiency, Billing and Collection efficiency, Financial Management, Consumer Satisfaction, Energy Conservation and Monitoring.

The audit examination involved scrutiny of records of the Corporate Office and 4[22] out of 15 Circles (Poorv Kshetra Vidyut Vitaran Company Limited, Jabalpur-Poorv Discom) and 4[23] out of 14 Circles (Paschim Kshetra Vidyut Vitaran Company Limited, Indore-Paschim Discom). The circles were selected based on the strength of LT and HT consumers.

The methodology adopted for attaining the audit objectives with reference to audit criteria consisted of explaining audit objectives to top management, scrutiny of records at Head Office and selected units, interaction with the auditee personnel, analysis of data with reference to audit criteria, raising of audit queries, discussion of audit findings with the Management and issue of draft review to the Management for comments.

Audit Objectives

2.2.6 The objectives of the performance audit were to assess:

- whether aims and objectives of National Electricity Plan were adhered to and distribution reforms achieved;
- adequacy and effectiveness of network planning and its execution;
- efficiency and effectiveness in implementation of the central schemes such as, Revised Accelerated Power Development & Reform Programme (RAPDRP) and Rajiv Gandhi Grameen Vidyutikaran Yojna (RGGVY);
- operational efficiency in meeting the power demand of the consumers in the state;
- billing and collection efficiency of revenue from consumers;
- whether financial management was effective and
- whether energy conservation measures were undertaken.

[22] *Chhindwara, Jabalpur (City), Sagar and Katni.*
[23] *Indore (City), Indore (O&M), Ujjain and Dewas.*

Audit Criteria

2.2.7 The audit criteria adopted for assessing the achievement of the audit objectives were:

- provisions of Electricity Act 2003;
- objectives of National Electricity Plan, Plans and norms concerning distribution network of Discoms and planning criteria fixed by the MPERC;
- terms and conditions contained in the documents of Central Schemes;
- standard procedures for award of contract and principles of economy, efficiency and effectiveness in conducting operations of the Company;
- norms prescribed by various agencies with regard to operational activities;
- norms of technical and non-technical losses;
- guidelines/ instructions/ directions of State Government/MPERC.

Audit Findings

2.2.8 We explained the audit objectives to the Companies during the 'Entry Conference' held on 21 January 2011 (Paschim Discom), 31 January 2011(Poorv Discom) and 14 February 2011 (Madhya Discom). Audit findings were reported to the Company and the State Government in July 2011 and discussed in an 'Exit Conference' held on 8 December 2011. The Exit Conference was attended by senior officers of the Poorv and Paschim Discoms. The Poorv and Paschim Discoms replied to audit findings in December 2011. The replies, views expressed during both the Conferences and latest position of various aspects raised by audit and furnished by the Company during the Exit Conference have been considered while finalizing this Performance audit. However, reply was not received from the Government and representative from the Government was not present in the entry and exit conference. The audit findings are discussed in subsequent paragraphs.

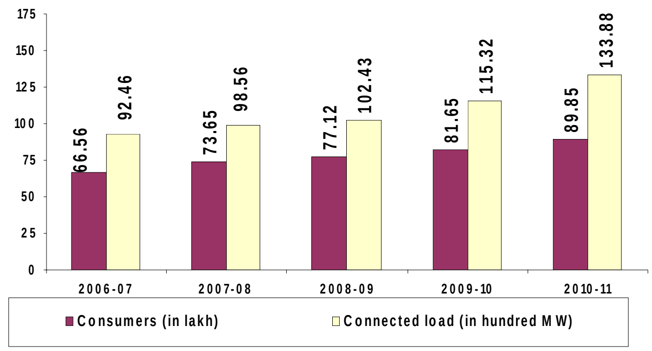
Distribution Network Planning

2.2.9 The National Electricity Plan was evolved with the objective of providing:

- Access to electricity –Available for all household in next five years from 2005.
- Supply of reliable and quality power of specified standards in an efficient manner and reasonable rates.

To ensure access to electricity by all, the Power Distribution Companies in the State are required to prepare long term/ annual plan for creation of infrastructural facilities for efficient distribution of electricity so as to cover maximum population in the State. Besides the Companies are required to upkeep the existing network and expand the distribution network keeping in view new connections and growth in demand.

The number of consumers and their connected load in the State during performance audit period are indicated in the chart.



While the system improvement and rural electrification schemes have been dealt with separately under subsequent paragraphs, the particulars of distribution network planned vis-à-vis achievement there against in the State as a whole is depicted in ***Annexure -16***. It may be seen from the annexure that against the planned additions of 1031 sub-stations over the performance audit period, only 651 sub-stations were actually added. Further, while the connected load increased from 9246 MW (equivalent to 11558 MVA at 0.80 Power Factor) in 2006-07 to 13388 MW (equivalent to 16735 MVA at 0.80 Power Factor) in 2010-11 (44.80 *per cent*), the transformer capacity increased from 13,661 MVA in 2006-07 to 19,184 MVA (40.43 *per cent*) in 2010-11.

Some of the observations on planning are discussed below:

Transformation capacity

2.2.10 Transformer is a static device installed for stepping up or stepping down voltage in transmission and distribution of electricity. The energy received at high voltage (132 kV, 66 kV, 33 kV) from primary sub-stations of the Transmission Companies is transformed to lower voltage (11 kV) at 33/11 kV sub-stations of the Distribution Companies to make it usable by the consumers. In order to cater to the entire connected load, the transformation capacity should be adequate. The ideal ratio of transformation capacity to connected load is considered as 1:1. The table below indicates the details of transformation capacity at 33/11 kV sub-stations and connected load of the consumers in the State during the period from 2006-11.

(Figures in MVA)

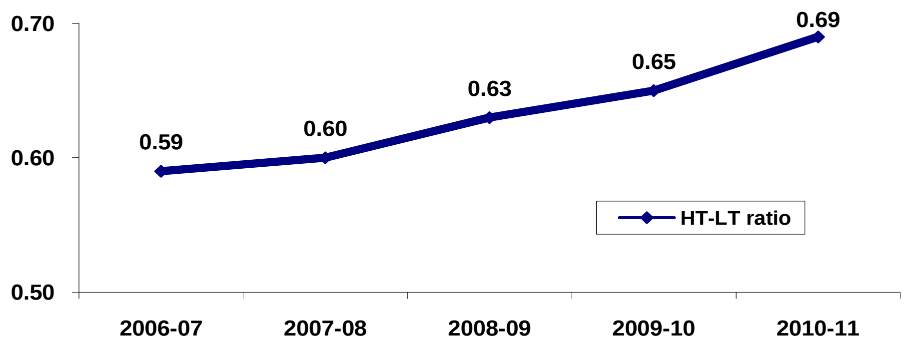
Year	Connected load	Transformation Capacity available	Gap (-) in/excess of Transformation capacity	Ratio of Transformation capacity to connected load
2006-07	11558	14154	2596	1.22:1
2007-08	12320	15472	3152	1.26:1
2008-09	12804	17277	4473	1.35:1
2009-10	14415	18292	3877	1.27:1
2010-11	16735	19184	2449	1.15:1

It may be seen from the table that the ratio of transformation capacity to total connected load ranged between 1.15:1 and 1.35:1. This represented an adequate transformation capacity in the state.

Implementation of LT less system

2.2.11 High Voltage Distribution System (HVDS) is an effective method of reduction of technical losses, prevention of theft, improved voltage profile and better consumer service. The GOI stressed (February 2001) the need to adopt LT less system of distribution through replacement of existing LT lines by HT lines to reduce the distribution losses. National Electricity Plan 2005 also laid down that the distribution companies should be prompted to replace LT lines by HT lines to reduce the distribution losses.

The HT-LT ratio over the performance audit period is depicted in the graph:



The HT-LT ratio increased from 0.59 to 0.69 respectively during 2006-11. On a review of implementation of HVDS, which is aimed at conversion of LT to HT, we observed the following discrepancies:

Poorv and Paschim Discom

Though the Discom was paying interest on the funds borrowed, they granted interest free mobilisation advance during contract period.

2.2.12 Under the scheme funded by Asian Development Bank (ADB), the Poorv Discom envisaged conversion of 15,567 KMs of Low Tension lines to High Voltage (11kV) lines. For execution of scheme, the Discom issued 16 work orders valued ₹ 631.72 crore. As per the terms and conditions of funding by ADB, interest is charged on the amount of funding from the date of advance. Whereas, the Discoms levied interest on mobilisation advance paid to the contractors only for the period beyond which the contract was delayed from the scheduled date of completion. The Discom should have followed the same conditions of levying interest on mobilisation advance given to the contractors. Not doing so, has resulted in non-recovery of interest of ₹ 14.34 crore on the amount of ₹ 71.72 crore granted to the contractors on mobililsation advance.

Similarly, in the case of Paschim Discom, an amount of ₹ 8.30 crore was not recovered towards interest on mobilisation advance of ₹ 46.14 crore granted to the contractors.

The Discom stated (June 2011) that they had adopted Standard Bidding Document of ADB which did not specify any interest on mobilisation advance. The bidding documents were also approved by the lender. We suggested that Discoms should have followed the same principle of paying interest to ADB on its loan for recovery of interest on loan granted by it to the contractors

2.2.13 A review of scheme assisted by Asian Development Bank (ADB) revealed that

- As per the scheme, the works (tranche–IV), were to be completed by July 2009, However, the same were awarded to contractors only between August 2008 and October 2009 at a total cost of ₹ 270.73 crore. The work was delayed and the percentage of completion ranged from 19 *per cent* to 98 *per cent* as on April 2011.

Implementation of Centrally Sponsored Schemes

Rural Electrification

2.2.14 The key development objective of the power sector is supply of electricity to all areas including rural as mentioned in Section 6 of the Electricity Act. Rural Electrification Corporation of India is the nodal agency to implement the programme of giving access to electricity to all households in the next five years beginning from 2005. The Rajiv Gandhi Gramin Vidyutikaran Yojana (RGGVY) scheme initiated by REC aims at electrifying all villages and habitations.

As per the new definition of village electrification w.e.f 2004-05, a village would be declared as electrified if,

a) Basic infrastructure such as Distribution Transformers and Distribution lines are provided in the inhabited locality as well as the Dalit Basti hamlet where it exists.
b) Electricity is provided to public places like schools, Panchayats office, health centers, dispensaries, community centers etc.
c) The number of households electrified should be at least 10% of the total number of households in the village.

As on 31 March 2006, there were 52,087 villages (as per 2001 Census) in the State. Out of 36,374 villages in Poorv and Paschim Discoms selected for detailed analysis, 32,741 villages were electrified (90 *per cent*). The year-wise target vis-à-vis achievement of electrification under RGGVY scheme during the review period is shown in the table below.

(Figures in numbers)

Year	Electrified in the beginning of the year	Targeted for electrification during the year	Electrified during the year	Electrified in the end of the year	Percentage of achievement against target during the year
2006-07	32741	0	0	32741	0
2007-08	32741	0	4	32745	0
2008-09	32745	1764	252	32997	14.29
2009-10	32997	1730	927	33924	53.58
2010-11	33924	885	2192	36116	247.68
Total		**4379**	**3375**		**77.07**

We observed that:

The Poorv and Paschim Discoms did not achieve the target for electrification of villages.

- The Discom did not fix any target for rural electrification during 2006-07 and 2007-08 and as result no village was electrified during these years.
- During the five years from 2006-07 to 2010-11 only 3,375 villages were electrified by the two Discoms, against a target of 4,379 villages indicating only 77.07 *per cent* achievement;

2.2.15 For execution of the RGVVY scheme, the Poorv Discom placed 27 work orders during September 2006 and August 2010 at a cost of ₹ 923.61 crore. A review of all work orders revealed that

- the percentage of payment method adopted[24] by the Discom on supply and erection contracts were at variance with those recommended by REC[25],
- in respect of two Districts (Damoh and Shahdol) only 32 per cent work was completed by November 2011 as against the target of completion by 18 months from March 2008 and October 2010 for Damoh and Shahdol respectively.

The Poorv Discom did not levy liquidated damages amounting to ₹ 8.31 crore for slow progress of work.

- in respect of eight contracts valuing ₹ 166.16 crore, the Discom did not levy liquidated damages of ₹ 8.31 crore for slow progress of work though provided in the contracts.
- in respect of 27 contracts valuing ₹ 923.61 crore where works were awarded between September 2006 and November 2010 and were to be completed between March 2008 and May 2012, no work was completed

[24] *(15 per cent advance, 80 per cent on receipt of material,5 per cent on final payment) on supply and on erection (10 per cent for advance,90 per cent for work done)*

[25] *(15 per cent advance, 70 per cent on receipt of material,15 per cent on final payment)on supply and on erection(10 per cent for advance,80 per cent for work done,10 per cent on final payment)*

so far (July 2011). The completion of works ranged between 0.10 to 51 *per cent* only,

- while the REC guidelines specified 15 and 10 *per cent* mobilisation advance on ex-works price of the supply and erection contract, the Paschim Discom paid mobilisation advance on total contract price inclusive of taxes resulting in excess payment of advance amounting to ₹ 4.52 crore.

The Poorv Discom replied (December 2011) that the percentage of payment method was adopted so that the contractors have sufficient cash flow and works do not suffer on this account. However, no prior approval was taken from the funding agency for such deviation in guidelines.

2.2.16 The Discoms received funds under RGGVY for rural electrification. The position of the funds available vis-à-vis utilised under various schemes in respect of Poorv and Paschim Discoms selected for detailed analysis during the five years ending 31 March 2011 is depicted in the table below.

(₹ in crore)

Year	Opening Balance	Funds received during the year	Total funds available	Funds Utilised	Unspent funds at the end of the year	Percentage of utilised fund
2006-07	0.00	73.53	73.53	27.96	45.57	38.03
2007-08	45.57	55.15	100.72	43.15	57.57	42.84
2008-09	57.57	122.12	179.69	32.92	146.77	18.32
2009-10	146.77	314.76	461.53	177.96	283.57	38.56
2010-11	283.57	202.96	486.53	173.50	313.03	35.66

It is evident from the table that

- in all the years the amount of funds utilised was less than the amount of funds received.
- the unspent funds at the end of all the years were increasing year after year.
- delay in execution of works in case of Poorv Discom was the reason for under-utilisation of funds.

Restructured Accelerated Power Development & Reforms Programme

2.2.17 The Government of India (GoI) approved the Accelerated Power Development & Reforms Programme (APDRP) to leverage the reforms in power sector through the State Governments. This scheme was implemented by the power sector companies through the State with the objective of upgradation of sub-transmission and distribution system including energy accounting and metering, for which financial support was provided by GoI.

In order to carry on the reforms further, the GoI launched the Restructured APDRP (R-APDRP) in July 2008 as a Central Sector Scheme for XI Plan with Power Finance Corporation (PFC) as nodal agency. The R-APDRP scheme comprises of Part A and B. Part A was dedicated to establishment of IT enabled system for achieving reliable and verifiable baseline data system in all towns besides installation of SCADA[26]/ Distribution Management System. For this, 100 *per cent* loan is provided, and was convertible into grant on completion and verification of same by Third Party independent evaluating agencies. The Part B of the scheme deals with strengthening of regular sub-transmission & distribution system and upgradation projects.

Funds released by the Government of India

2.2.18 The details of the funds released by GOI, mobilized from other agencies (including REC/ PFC/ Commercial Banks), utilisation there against and balances in respect of the Poorv and Paschim Discoms are depicted below.

(₹ in crore)

Year	Funds released by		Funds available	Funds utilised	Balance	Percentage of balance to funds available
	GOI	Others (PFC)				
2009-10	Nil	37.00	37.00	4.70	32.30	87
2010-11	Nil	160.08	192.38	26.39	165.99	86

It may be seen from the above that in both the years 2009-10 and 2010-11 the amount of funds utilised was less than the amount of funds released.

In execution of the Project, we observed that the Poorv Discom had granted interest-free advance of ₹ 11.09 crore and Paschim Discom ₹ 3.36 crore to TCS under Part A. The Poorv Discom had also granted interest-free advance of ₹ 35.83 crore to contractors under Part B (₹ 21.69 crore as on March 2011). While Discoms are paying interest on the loan from PFC @ 11.5 *per cent per annum*, granting interest free advance was against the financial interest of the Discoms.

Consumer metering

2.2.19 The MPERC directed (July 2009) that all un-metered domestic connections in urban areas given after December 2007 and all un-metered domestic connections in rural areas be provided with meters in a phased manner and meterisation be completed by March 2010.

[26] ***Supervisory Control And Data Acquisition** – It generally refers to industrial control systems, computer systems that monitor and control industrial, infrastructure, or facility-based processes.*

Only the Paschim Discom was successful in attaining 100 *per cent* meterisation in urban areas by the end of June 2009, but there existed unmetered connections in rural areas. In case of other two Discoms there existed unmetered connections in both urban and rural areas. Financial crunch was the main reason for not achieving the targets for meterisation.

Attainment of 100 *per cent* metering was one of the objectiveChapter-II Performance Audi scheme. Accordingly, the work of metering of unmetered consumers and replacement of defective and stopped meters under 82 towns in the State was taken up at a total cost of ₹ 124.02 crore It was targeted that the work would be completed by July 2012 and June 2011 respectively. The achievement of metering of all consumers (of various categories) in the State is indicated in the ***Annexure –17***.

We observed that:

- The Poorv Discom had not fixed targets for meterisation for the years 2006-07 to 2009-10
- The Paschim Discom had also not fixed targets for the years 2006-07, 2007-08 and 2010-11
- In none of the years during the review period (except in 2008-09 in case of Paschim Discom) the targets fixed for meterisation were achieved by the Discoms
- The percentage of metered consumers to total consumers in the State decreased from 75 in 2006-07 to 64 in 2010-11.

Operational efficiency

2.2.20 The operational performance of the Discom was evaluated on the basis of various factors including availability of adequate power for distribution, adequacy and reliability of distribution network, minimizing line losses, detection of theft of electricity, *etc*. These aspects have been discussed below.

Sub-transmission & Distribution Losses

2.2.21 The losses at 33 KV stage are termed as sub-transmission losses while those at 11 KV and below are termed as distribution losses. The losses occur mainly on two counts, i.e., technical and commercial. Technical losses occur due to inherent character of equipment used for transmitting and distributing power and resistance in conductors through which the energy is carried from one place to another. On the other hand, commercial losses occur due to theft of energy, defective meters and drawal of un-metered supply, etc.

The loss of energy on account of these factors must be kept at the bare minimum. The following table indicates the energy losses for the Discoms selected for detailed analysis for last five years up to 2010-11.

(In Million Units)

S.No	Particulars		2006-07	2007-08	2008-09	2009-10	2010-11
1	Energy purchased	Poorv	9777	10444	10290	10403	11242
		Paschim	12693.00	13580.90	13394.54	13627.53	15099.10
		Total	**22470.00**	**24024.90**	**23684.54**	**24030.53**	**26341.10**
2	Energy Available for Sale (after transmission losses)	Poorv	9062	9817	9604	9632.00	10563
		Paschim	11663.90	12789.20	12656.20	12705.60	14148.90
		Total	20725.90	22606.20	22260.20	22337.60	24711.90
3	Energy Sold	Poorv	5817	6114	6028	6410	7231
		Paschim	8079.40	8442.50	8382.90	9069.50	10412.80
		Total	**13896.40**	**14556.50**	**14410.90**	**15479.50**	**17643.80**
4	Energy Losses (2-3)	Poorv	3245	3703	3576	3222	3332
		Paschim	3584.50	4346.70	4273.30	3636.10	3736.10
		Total	**6829.50**	**8049.70**	**7849.30**	**6858.10**	**7068.10**
5	Percentage of energy losses (per cent) {(4 / 2) x 100}	Poorv	35.81	37.72	37.23	33.45	31.54
		Paschim	30.73	33.99	33.76	28.62	26.41
6	Percentage of losses allowed by MPERC (per *cent*)	Poorv	32.50	29.50	26.50	23.50	30.00
		Paschim	30	27.5	25	23	26
7	Normative losses (in MUs)	Poorv	2945.15	2896.02	2545.06	2263.52	3168.90
		Paschim	3499.17	3517.03	3164.05	2922.29	3678.71
8	Excess losses (in MUs)	Poorv	299.85	806.99	1030.94	958.48	163.10
		Paschim	85.33	829.67	1109.25	713.81	57.39
9	Total Excess losses (in MUs)		385.18	1636.66	2140.19	1672.29	220.49
10	Average realisation rate per unit (in ₹)	Poorv	2.29	2.17	2.35	2.79	2.97
		Paschim	2.23	2.18	2.4	2.87	3.13
11	Value of excess losses (₹ in crore) (8 x 10)	Poorv	68.67	175.12	242.27	267.42	48.44
		Paschim	19.03	180.87	266.22	204.86	17.96
12	**Total value of excess losses** (₹ in crore)		**87.70**	**355.99**	**508.49**	**472.28**	**66.40**

The AT&C losses of the Discoms were higher than the norms fixed by the MPERC.

It would be seen from the table that losses ranged between 31.54 *per cent* and 37.72 *per cent* (Poorv Discom) and between 26.41 *per cent* and 33.99 *per cent* (Paschim Discom) during the last five years ending 31 March 2011. Reduction in these losses is the most significant step towards making the Discoms financially self-sustaining. The importance of reducing losses can be gauged from the fact that one *per cent* decrease in losses could add ₹ 76.53 crore [27] (Poorv Discom ₹ 31.50 crore and Paschim Discom ₹ 45.03 Crore) to the profits of the Discoms annually. The main reasons for such high energy losses were heavy number of unmetered consumers thereby leading to high quantum of assessed sales against metered sales and theft of electricity.

[27] *Based on losses and Average Rate of Realisation of the Discoms during 2010-11.*

Performance of Distribution Transformers

2.2.22 The MPERC had fixed the norm of failure of DTRs in its tariff orders. The details of norms fixed, actual DTRs failed and the expenditure incurred on their repairs is depicted in the table below.

Sl. No.	Particulars		2006-07	2007-08	2008-09	2009-10	2010-11
1.	Existing DTRs at the close of the year (in Number)		1,86,755	2,00,720	2,24,544	2,38,109	2,55,207
2.	DTR Failures (in Number)		33,338	27,331	31,315	30,813	33,748
3.	Percentage of failures	Madhya	21.36	16.17	17.72	13.70	12.70
		Poorv	14.83	13.00	15.00	11.95	11.56
		Paschim	17.12	11.89	11.67	12.92	14.99
4.	Norm allowed by MPERC (in percentage)	Madhya	14.00	12.00	10.00	8.00	8.00
		Poorv	14.00	13.00	12.00	11.50	11.00
		Paschim	11.51	12.00	10.18	11.00	10.50
5.	Excess failure percentage over norms	Madhya	7.36	4.17	7.72	5.70	4.70
		Poorv	0.83	0	3.00	0.45	0.56
		Paschim	5.61	0	1.49	1.92	4.49
6.	Expenditure on repair of failed DTRs (₹ in crore) Poorv and Paschim Discoms		13.04	14.92	13.18	11.80	17.21

It may be seen from the above table that except during the year 2007-08 (Poorv and Paschim Discom) the percentage of failure of transformers was in excess of norms fixed by the MPERC.

Cause-wise analysis of failure of DTRs revealed that in respect of the Poorv and Paschim Discoms the percentage of failure due to defective manufacture/repair and line bursting was high and ranged between 81.33 and 94.23 of the total failures. Percentage of failure due to over-loading ranged between 3.96 to 11.07 *per cent* during the years under review as shown in the table below.

(Figures in numbers)

Year	Total Number of DTRs failed	Number of failures due to		Percentage of failures due to	
		Defective manufacture/ line bursting	Over-loading	Defective manufacture/ line bursting	Over-loading
2006-07	20,823	17,511	1,949	84.09	9.36
2007-08	16,369	13,313	1,812	81.33	11.07
2008-09	18,136	15,281	1,290	84.26	7.11
2009-10	19,178	18,072	759	94.23	3.96
2010-11	21,749	20,247	1,028	93.09	4.73

Commercial losses

2.2.23 The majority of commercial losses relate to consumer metering and billing besides pilferage of energy. The other observations relating to commercial losses are discussed below.

High incidence of theft

2.2.24 Substantial commercial losses are suffered due to theft of energy by tampering of meters by the consumers and unauthorised tapping/hooking by the non-consumers. As per section 135 of Electricity Act 2003, theft of energy is an offence punishable under the Act.

We observed that:

- The Paschim Discom had not fixed targets for number of checkings, number of theft cases, amount assessed in theft cases and amount to be realised
- The Paschim Discom had not furnished the data on the actual number of checkings and actual number of theft cases noticed
- The targets for realisation of the amount assessed were not achieved by the Poorv Discom in any of the years except 2009-10 during the performance audit period

Performance of Raid Team

2.2.25 In order to minimise the cases of pilferage/loss of energy and to save the Discoms from sustaining heavy financial losses on this account, Section 163 of Electricity Act 2003, provides that the licensee may enter the premises of a consumer for inspection and testing the apparatus. Vigilance team of Discoms headed by an Officer of the rank of Chief Engineer at its headquarters was entrusted with the work of conducting raids of checking the premises of the consumers with the assistance of Assistant Engineers (AEs) and other departmental officers of the Discoms concerned. Following is the position of raids conducted during review period.

(₹ in crore)

Sl. No	Year	Total number of consumers (in lakh)	No. of consumers checked (in lakh)	Assessed amount	Realised amount	Unrealised amount	Percentage of unrealized amount to assessed amount	Percentage of checking to total nos. of consumer
1	2006-07	66.56	15.23	155.99	84.5	71.49	45.83	22.88
2	2007-08	73.65	14.84	177.59	97.67	79.92	45.00	20.15
3	2008-09	77.12	12.81	135.99	80.2	55.81	41.04	16.61
4	2009-10	81.65	13.76	292.97	182.91	110.06	37.57	16.85
5	2010-11	89.85	12.18	351.03	174.94	176.09	50.16	13.56

Though the percentage of unrealized amount against the amount assessed during the raids decreased from 45.83 in 2006-07 to 37.57 in 2009-10, it increased to 50.16 in 2010-11. At the same time the percentage of checking of number of consumers also decreased. This shows that there was need to conduct more raids to drastically reduce theft of energy and also that the Discoms have not taken adequate steps to recover the amounts assessed as per the Electricity Act.

Financial Position and Working Results

2.2.26 One of the major aims and objectives of the National Electricity Plan of 2005 is ensuring Financial Turnaround and commercial viability of electricity sector. The tables below summarizes the financial position and working results of two selected Discoms for the period from 2006-07 to 2010-2011.(The details in respect of Madhya Discom are given in ***Annexure-18***).

(₹ in crore)

Particulars	POORV DISCOM					PASCHIM DISCOM				
	2006-07	2007-08	2008-09	2009-10	2010-11	2006-07	2007-08	2008-09	2009-10	2010-11
A. Liabilities										
Paid up Capital	417.04	493.34	603.79	1014.91	1194.45	637.31	788.58	662.85	1170.18	1223.05
Reserve & Surplus	24.41	198.26	368.18	654.54	809.48	40.18	101.98	321.17	380.06	437.24
Borrowings (Loan Funds)										
Secured	0.00	134.12	328.25	463.26	746.00	-	-	32.03	87.45	255.44
Unsecured	883.55	699.68	691.47	1401.90	2259.25	890.66	981.48	838.11	690.17	1223.7
Current Liabilities & Provisions	1568.11	2245.28	3698.90	4128.18	4440.10	1585.93	2284.96	3388.11	4533.65	5427.44
Total	**2893.11**	**3770.68**	**5690.59**	**7762.79**	**9449.28**	**3154.08**	**4157**	**5242.27**	**6861.51**	**8566.87**
B. Assets										
Gross Block	1444.71	1639.06	1944.26	2196.64	2600.22	1677.77	1805.22	1985.91	2061.3	2722.7
Less: Depreciation	956.98	1059.21	1187.65	1296.74	1391.55	989.8	1065.71	1284.71	1379.24	1601.67
Net Fixed Assets	487.73	579.85	756.61	899.90	1208.67	687.97	739.51	701.2	682.06	1121.03
Capital works-in-progress	498.70	528.88	556.22	766.91	745.60	829.24	914.58	1000.92	1178.86	863.87
Investments	4.00	4.00	50.74	226.54	4.61	28.05	27.67	138.41	148.15	248.79
Current Assets, Loans and Advances	1358.24	1500.19	2092.79	2405.02	3140.00	1254.6	1441.21	1539.62	1557.22	2459.71
Miscellaneous Expenditure	0.18	0.12	0.06	0.00	12.18	-	-	-	-	-
Deferred Revenue Expenditure	1.19	0.79	0.40	0.00	0.00	-	-	-	-	-
Accumulated losses	543.07	1156.85	2233.77	3364.42	4338.22	354.22	1034.02	1862.12	3295.21	3873.47
Total	**2893.11**	**3770.68**	**5690.59**	**7762.79**	**9449.28**	**3154.08**	**4156.99**	**5242.27**	**6861.50**	**8566.87**
Debt : Equity[28]	**-**	**1.69:1**	**1.42:1**	**1.76:1**	**2.31:1**	**1.28:1**	**0.98:1**	**1.18:1**	**0.36:1**	**0.76:1**

Working results

2.2.27 The table below summarizes the particulars of cost of electricity vis-à-vis revenue realization per unit there from in respect of two selected Discoms for the period from 2006-07 to 2010-2011.(The details in respect of Madhya Discom are given in ***Annexure-19***).

[28] *Debt Equity: Figures in the table are taken from the Chapter-I.*

No.	Description	POORV DISCOM (₹ in crore)					PASCHIM DISCOM (₹ in crore)				
		2006-07	**2007-08**	**2008-09**	**2009-10**	**2010-11**	**2006-07**	**2007-08**	**2008-09**	**2009-10**	**2010-11**
1	**Income**										
(i)	Revenue from Sale of Power	1982.67	2031.90	2072.81	2498.72	2836.74	2382.50	2548.60	2640.24	3120.08	3823.78
(ii)	Revenue subsidy & grants	88.51	97.41	188.65	190.79	296.99	214.25	235.12	394.71	521.79	605.69
(ii)	Other income	140.74	142.02	163.48	239.90	230.15	130.65	154.72	170.49	189.35	253.17
	Total Income	**2211.92**	**2271.33**	**2424.94**	**2929.41**	**3363.88**	**2727.40**	**2938.44**	**3205.44**	**3831.22**	**4682.64**
2	**Distribution (In MUs)**										
(i)	Total power purchased	9777.00	10444.00	10290.00	10403.00	11242.00	12693.00	13580.90	13394.54	13627.53	15099.10
(ii)	Less: Transmission losses,	715.00	627.00	686.00	771.00	679.00	1029.10	791.70	738.34	921.93	950.20
(iii)	Net Power available for Sale	9062.00	9817.00	9604.00	9632.00	10563.00	11663.90	12789.20	12656.20	12705.60	14148.90
(iv)	Less: Sub-transmission & distribution losses	3245.00	3703.00	3576.00	3222.00	3332.00	3584.50	4346.70	4273.30	3636.10	3736.10
	Net power sold	**5817.00**	**6114.00**	**6028.00**	**6410.00**	**7231.00**	**8079.40**	**8442.50**	**8382.90**	**9069.50**	**10412.80**
3	**Expenditure on Distribution of Electricity**										
(a)	**Fixed cost**										
(i)	Employees cost	306.74	357.26	410.23	466.12	568.99	289.62	326.36	392.23	822.42	502.70
(ii)	Administrative and General expenses	48.29	64.38	72.48	77.38	74.28	45.57	56.51	60.02	75.51	91.94
(iii)	Depreciation	114.78	102.22	85.07	109.08	94.81	66.95	75.91	96.30	94.54	86.27
(iv)	Extra ordinary items	-4.00	0.00	-4.04	160.70	78.84	0.00	0.00	0.00	0.00	0.00
(v)	Interest and finance charges	45.80	90.04	86.66	134.22	341.17	78.14	101.34	129.24	196.51	453.41
(vi)	Other Expenses	112.45	35.70	91.68	311.30	292.33	31.09	110.84	88.90	258.60	102.99
	Total fixed cost	**624.06**	**649.60**	**742.08**	**1258.80**	**1450.42**	**511.37**	**670.96**	**766.69**	**1447.58**	**1237.31**

Sl. No	Description	POORV DISCOM (₹ in crore)					PASCHIM DISCOM (₹ in crore)				
		2006-07	2007-08	2008-09	2009-10	2010-11	2006-07	2007-08	2008-09	2009-10	2010-11
(b)	**Variable cost**										
(i)	Purchase of Power	1687.48	1976.80	2503.45	2448.50	2609.07	2116.31	2618.16	2948.54	3377.44	3390.68
(ii)	Electricity Duty						0.00	0.00	0.00	0.00	0.00
(iii)	Transmission/ Wheeling Charges	183.20	227.44	224.55	329.66	249.03	226.55	298.45	281.55	257.68	398.71
(iv)	Repairs & Maintenance	20.83	30.26	30.69	23.11	29.15	24.26	30.08	35.24	36.92	47.88
	Total variable cost	**1891.51**	**2234.50**	**2758.69**	**2801.27**	**2887.25**	**2367.12**	**2946.69**	**3265.33**	**3672.04**	**3837.27**
(c)	**Total cost 3(a) + (b)**	**2515.57**	**2884.10**	**3500.77**	**4060.07**	**4337.67**	**2878.49**	**3617.65**	**4032.02**	**5119.62**	**5074.58**
4	Realisation (₹ per unit) (incl. revenue subsidy)	2.29	2.17	2.35	2.79	2.97	2.23	2.18	2.40	2.87	3.13
5	Fixed cost (₹ per unit)	0.69	0.66	0.77	1.31	1.37	0.44	0.52	0.61	1.14	0.87
6	Variable cost (₹ per unit)	2.09	2.28	2.87	2.91	2.73	2.03	2.30	2.58	2.89	2.71
7	Total cost per unit (in ₹) (5+6)	2.78	2.94	3.65	4.22	4.10	2.47	2.83	3.19	4.03	3.59
8	Contribution (4-6) (₹ per unit)	0.20	-0.11	-0.52	-0.12	0.24	0.20	-0.13	-0.18	-0.02	0.42
9	**Profit (+)/Loss(-) per unit ₹ in (4-7)**	**-0.49**	**-0.77**	**-1.30**	**-1.43**	**-1.13**	**-0.24**	**-0.65**	**-0.79**	**-1.16**	**-0.46**

2.2.28 The financial viability of the Discoms is generally influenced by the various factors such as

a) Timely revision of tariff;
b) Recovery of cost of operations;
c) Recovery of fixed cost;
d) Timely release of promised subsidy by the Government;
e) Cross subsidization policy of the Government and its implementation by the Discoms;
f) Financial Management of Discoms; and
g) Revenue billing and collection efficiency.

Each of these factors is discussed in the following paragraphs.

a) Timely revision of tariff

2.2.29 The tariff structure of the power distribution utilities is subject to revision approved by the respective MPERC after the objections, if any, received against

ARR petition filed by them within the stipulated date. The Discom was required to file the ARR for each year five months before the commencement of the respective year. The MPERC accepts the application filed by the Discoms with such modifications/conditions as may be deemed just and appropriate and after considering all suggestions and objections from public and other stakeholders. In case of 2006-07, delay of 21 days was noticed due to incomplete petition filed by Discoms (Poorv and Paschim Discom) and 44 days in 2009-10 (Poorv Discom). This led to delay in actual implementation of the tariff for these years.

b) Recovery of cost of operations

During the first four years of the review period the loss per unit was increasing, though it reduced during 2010-11

2.2.30 The Discoms were not able to recover their cost of operations. During the last five years ending 2010-11, the loss per unit showed generally an increasing trend - except in the case of the year 2010-11. In case of Poorv Discom the loss per unit increased from ₹ 0.49 in 2006-07 to ₹ 1.43 in 2009-10, which decreased slightly to ₹ 1.13 in 2010-11. Similarly in case of Paschim Discom the loss per unit which was ₹ 0.24 in 2006-07 increased to ₹ 1.16 in 2009-10, which decreased to ₹ 0.46 in 2010-11.

Our analysis revealed that main reasons for high cost of sale of energy was due to amount provided for doubtful debts and provision for interest and finance charges.

c) Deficit in recovery of fixed costs

2.2.31 None of the Discoms were able to recover fixed costs. Detailed analysis in respect of the Poorv and Paschim Discom revealed that the extent of tariff was lower than breakeven levels (in percentage terms) of revenue from sale of power at the present level of operations and efficiency for the five years ending 31 March 2011 as shown in the table below:

(₹ in crore)

Year	Sales (excluding subsidy)	Variable costs	Fixed costs	Contribution	Deficit in recovery of fixed costs	Deficit as percentage of sales
(1)	(2)	(3)	(4)	(5) = (2) – (3)	(6) = (4) – (5)	(7)={(6)/(2)} X 100
2006-07	4365.17	4258.63	1135.43	106.54	1028.89	23.57
2007-08	4580.50	5181.19	1320.56	-600.69	1921.25	41.94
2008-09	4713.05	6024.02	1508.77	-1310.97	2819.74	59.83
2009-10	5618.80	6473.31	2706.38	-854.51	3560.89	63.37
2010-11	6660.52	6724.52	2687.73	-64.00	2751.73	41.31

It could be seen from above table that

- In none of the years under performance audit period the Discoms were able to recover fixed costs .
- The deficit in recovery of fixed cost was increasing from year to year.

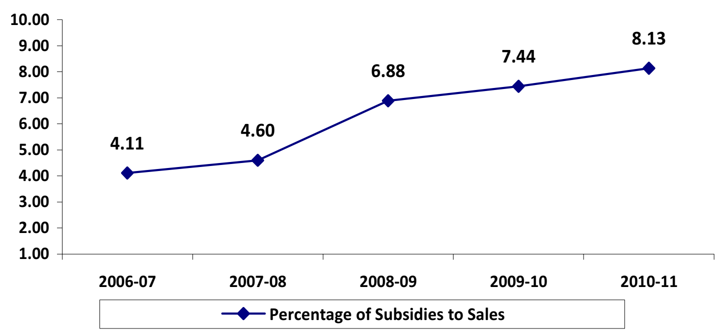
d) Timely release of promised subsidy by the Government

2.2.32 There is an urgent need for ensuring recovery of cost of service from consumers to make the power sector sustainable. The State Government is providing subsidy with a view to ensure supply of power to specific category of consumers at concessional rates of tariff.

Subsidy Support

The subsidy support from the Government showed an increasing trend.

2.2.33 The graph below indicates revenue subsidy support from State Government to the Poorv and Paschim Discoms (against concessional tariff) as a percentage of sales[29] for the last five years ending 31 March 2011.



It is evident from the above that subsidy support from the Government is showing increasing trend. It is a matter of concern as the subsidy may be withdrawn over a period of time in a phased manner so that tariff may cover average cost of supply to consumers. Further, against the subsidy claim of ₹ 1673.41 crore, ₹ 1366.48 crore was actually paid by the State Government as detailed in the table below.

(₹ in crore)

Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
Opening balance	133.37	191.58	146.65	270.96	367.24
Add: Due from State Government during the year	179.51	210.51	324.03	417.96	541.40
Less: Received during the year	121.30	255.44	199.72	321.68	468.34
Closing balance	191.58	146.65	270.96	367.24	440.30

[29] *The figure here is excluding revenue subsidy for concessional tariff from State Government.*

It may be seen from the table above that the closing balance of subsidy receivable has increased indicating that the State Government has not been fully reimbursing the subsidy becoming due in each year**.** This has not only adversely affected the financial health of the Discoms but also infringes the provisions of Section 65 of the Electricity Act 2003 requiring the State Governments to pay the subsidy in advance.

e) Cross subsidization policy of the Government and its implementation by the Discoms

2.2.34 Section 61 of Electricity Act 2003 stipulates that the tariff should progressively reflect the average cost of supply (ACOS) of electricity and also reduce cross subsidy in a phased manner as specified by the Commission. National Tariff Policy envisaged that the tariff of all categories of consumer should range within plus or minus 20 *per cent* of the ACOS by the year 2010-11. The position as regards cross-subsidies in various major sectors is depicted in the table below.

Particulars	2006-07		2007-08		2008-09		2009-10		2010-11	
Average cost of supply in ₹ (ACOS)[30]	3.49		3.60		3.69		3.71		4.22	
Average Revenue from	**Paise per unit**	**Percentage of ACOS**	**Paise per unit**	**Percentage of ACOS**	**Paise per unit**	**Percentage of ACOS**	**Paise per unit**	**Percentage of ACOS**	**Paise per unit**	**Percentage of ACOS**
Domestic	3.16	91	3.43	95	3.36	91	3.45	93	4.01	95
Non –Domestic (Commercial)	5.86	168	5.48	152	5.39	146	5.34	144	5.87	139
Industrial	4.72	135	4.56	127	4.61	125	4.71	127	5.11	121
Commercial	2.03	58	2.42	67	2.55	69	2.49	67	3.17	75
Railways	4.64	133	4.6	128	4.65	126	4.75	128	5.28	125
Public water works	2.95	85	3.08	86	3.39	92	3.41	92	3.8	90
Street light	3.53	101	3.59	100	3.69	100	3.75	101	3.88	92
LT Industrial	4.55	130	4.36	121	4.46	121	4.71	127	5.23	124
Coal Mines	5.5	158	5.35	149	5.39	146	5.31	143	5.44	129

It may be seen from the above table that

- in case of domestic, public water works and street light the tariffs were within ± 20 % of the average cost of supply.

- in case of non-domestic, industrial, LT industrial, coal mines and railway sectors, the average realisation continues to be more than 20 *per cent* of the average cost of supply.

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[30] *The ACOS is as determined by the MPERC based on the various items of expenses as approved for the respective year. This is different from the cost per unit mentioned in the working results, which is based on the actual cost incurred.*

The objective of keeping the tariffs of all categories within plus or minus 20 *per cent* of the ACOS by the year 2010- 11, envisaged in the National Tariff Policy, was not achieved. Thus, there is a need to correct this imbalance by progressively and gradually reducing the existing cross subsidies levels.

f) Financial Management of DISCOMs

Even after six years of power sector reforms, the Discoms were not financially independent.

2.2.35 Efficient fund management serves as a tool for decision making for optimum utilisation of available resources and borrowings at favourable terms at appropriate time. This includes revenue collection, billing, borrowings, grants, transfer of funds, interest recovery/payments, restructuring of loans, security deposits, bank reconciliations and other related transactions. While the revenue and billing have been dealt with in the preceding paragraphs, the other areas are discussed in subsequent paragraphs.

Under schedule 3 of the Electricity Reform Transfer Rules 2006 dealing with the transfer of functions of the MPSEB relating to bulk purchase and bulk supply of electricity along with related agreements and arrangements in the name of the newly formed M.P. Power Trading Company Limited, Jabalpur, a Cash Flow Mechanism 2006 (CFM) under the new sector structure was notified in June 2006.

The main objective of the CFM was the centralization of the cash management function across the six Companies[31]. The main feature of arrangements were that

- All the cash collected by Discom shall be transferred to MPSEB account.
- MPSEB shall allocate cash among companies based on a predetermined priority for payment of expenses.

As per CFM approved by the Government of Madhya Pradesh (GoMP), revenue collected by the Discoms is transferred to MPSEB. The MPSEB allots funds to the Discoms for Operational & Maintenance expenses comprising of Repair and Maintenance (R&M), Administrative and General Expenses (A&G) and Salary / Pension payment of the officers and employees. Besides this, the MPSEB is also incurring expenses on behalf of the Discoms for purchase of power, Transmission charges and debt servicing.

The Power Distribution Companies in the State of Madhya Pradesh have not been vested with complete independence, though they were distinct entities. Because of

[31] *1. Madhya Pradesh Power Generating Company Limited 2. Madhya Pradesh Power Transmission Company Limited, 3. Madhya Pradesh Madhya Kshetra Vidyut Vitaran Company Limited, 4. Madhya Pradesh Poorv Kshetra Vidyut Vitaran Company Limited, 5. Madhya Pradesh Paschim Kshetra Vidyut Vitaran Company Limited and 6. Madhya Pradesh Power Trading Company Limited.*

the presence of CFM all the cash received by them for sale of power is being remitted to MPSEB.

As a result of the above arrangement, the Discoms do not have complete control over their finances but are dependent on MPSEB even after a lapse of six years of introduction of electricity reforms in the State.

The Poorv Discom replied (December 2011) that the arrangement has benefited them in many ways like in negotiating with bankers for providing various financial facilities like movement of funds without any charges, flexibility in meeting the operational expenditure etc. The CFM had been a useful arrangement for them. This was also reiterated in the Exit Conference.

The very purpose of reforms in power sector was to create independent entities capable of managing the business of power distribution. With the arrangement of CFM the financial independence of the Discoms is compromised.

Non receipt of adequate funds from MPSEB

2.2.36 Due to shortage of collection of revenue, MPSEB is not able to provide funds regularly to the Discoms. As expenses on account of R&M, A&G, Salary and Pension are critical and also inevitable the Discoms utilized the funds earmarked for Capital works and for works under RGGVY for the above mentioned purposes. As per directions of MPSEB, the Discoms made part payment of salaries from the earmarked funds.

During the period between 2006-07 and 2009-10, the Poorv Discom had diverted ₹ 102.81 crore from funds earmarked for capital works towards salary, repairs & maintenance and administrative & general expenses and granted loan to MPSEB to the extent of ₹ 59.80 crore.

To manage the funds position, the Discoms resorted to working capital loan of ₹ 800 crore (₹ 250 crore Poorv Discom and ₹ 550 crore Paschim Discom) from Power Finance Corporation. The Paschim and Poorv Discoms borrowed ₹ 2795.50 crore and ₹ 996.19 crore respectively from Government of Madhya Pradesh (March 2011).

The practice of utilising funds earmarked for capital works for revenue expenditure is not in the financial interests of the Discoms and is adversely affecting completion of capital works.

Non remittance of pension and gratuity to MPSEB Terminal Benefit Trust

2.2.37 The State Government established a Trust (MPSEB Terminal Benefits Trust), for the benefit of the employees and the pensioners covered by the provisions of notification issued in June 2005 under the M.P. Electricity Reforms Transfer Scheme Rules.

We observed that though the MPSEB Terminal Benefit Trust was formed and account has also been opened the Discoms did not make any payments towards terminal benefits (pension and gratuity) to the Trust amounting to ₹ 1002.55 crore (Poorv Discom ₹ 417.27 crore and Paschim Discom ₹ 585.28 crore) for the period from 2006-07 to 2010-11. However, these amounts were charged to profit and loss account of the respective years by making a provision for the same in the accounts.

The Discoms had neither remitted the amounts to the Terminal Benefit Trust nor established any separate fund for managing of the fund. Thus, because of non remittance of the terminal benefit funds to the Trust, the MPERC disallowed these amounts in truing-up order of Discom ARRs.

The Paschim Discom stated (May 2011) that contributions are not being remitted due to paucity of funds.

g) Revenue billing and collection efficiency

Billing efficiency

2.2.38 The efficiency in billing of energy lies in distribution/sale of maximum energy by the Poorv and Paschim Discoms to their consumers to realise the revenue from them in time.

During the review period the Discoms billed only 72.93 *per cent* to 76.79 *per cent* of the total energy sold.

(Figures in MUs)

Sl. No.	Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
1.	Energy sold	13896.40	14556.50	14410.90	15479.50	17643.80
2.	Free Supply	309.82	381.83	451.44	525.26	710.91
3.	Assessed Sales	3721.84	3899.55	3481.40	3592.10	4774.80
4.	Energy billed (metered sales)	10174.56	10656.95	10929.50	11887.40	12863.00
5.	Percentage of energy billed to total energy sold	73.22	73.21	75.84	76.79	72.93
6	Percentage of Free Supply to total energy sold	2.23	2.62	3.13	3.39	4.03
7.	Assessed sales as percentage of metered sales	36.58	36.59	31.85	30.22	37.12

It would be seen from the above that energy billed during performance audit period ranged between 72.93 *per cent* and 76.79 *per cent* of the total energy sold while free supply was in the range of 2.23 *per cent* and 4.03 *per cent*. Further, against the norm of zero *per cent* of assessed sales allowed by MPERC, assessed sales constituted 30.22 *per cent* and 37.12 *per cent* during performance audit period.

Revenue Collection Efficiency

2.2.39 The table below indicates the balance outstanding at the beginning of the year, revenue assessed during the year, revenue collected and the balance outstanding at the end of the year in respect of all the three Discoms in the state during last five years ending 2010-11.

During the review period the balance outstanding at the end of the year showed an increasing trend

(₹ in crore)

S.No.	Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
1	Balance outstanding at the beginning of the year	3107.42	3778.15	4475.00	4890.45	5481.31
2	Revenue assessed/Billed during the year[32]	7272.18	7933.67	8339.96	9552.34	11521.29
3	Total amount due for realisation (1+2)	10379.60	11711.82	12814.96	14442.79	17002.60
4	Amount realised during the year	6601.45	7236.82	7924.51	8961.48	10637.55
5	Balance outstanding at the end of the year	3778.15	4475.00	4890.45	5481.31	6365.05
6	Percentage of amount realised to total dues (4/3)	63.60	61.79	61.84	62.05	62.56
7	Arrears in terms of No. of months assessment	6.23	6.77	7.04	6.89	6.63

We observed from the above details that:

- the balance outstanding at the end of the year increased from ₹ 3778.15 crore in 2006-07 to ₹ 6365.05 crore in 2010-11
- the Discoms did not have age-wise analysis of outstanding dues as on 31 March 2011
- the arrears in terms of number of months assessment increased from 6.23 in 2006-07 to 6.63 in 2010-11. This indicated ineffective persuasion of old debts.

As on March 2011 an amount of ₹ 676.61 crore (Poorv Discom ₹ 158.35 Crore and Paschim Discom ₹ 518.56 crore) was due from permanently disconnected consumers which were recoverable since 1985.

Thus the Discoms need to achieve complete meterisation of consumers in order to eliminate assessed sales, follow up and complete the capitalization of assets as per

[32] *Does not include adjustments for un-billed revenue/write-offs etc., and hence is different from the figures appearing under Working Results.*

capital expenditure plans as approved by the MPERC and improve their billing & revenue collection efficiency to enable them to recover fixed costs and thus become financially viable.

Some of the irregularities relating to revenue collection are discussed below:

Incorrect estimation of agricultural consumption

Because of non revision of benchmark consumption by unmetered agricultural consumers, Paschim Discom had to forgo revenue on 286.13 MU during 2010-11.

2.2.40 The billing of the unmetered agricultural consumers was based on the assessed consumption prescribed by the MPERC in respective years. This consumption was only assessed and thus did not reflect the actual consumption in the absence of meters.

Since the Discoms were facing difficulties in the task of meterisation of agricultural consumers, they had been pleading for revision of the assessed consumption in case of such consumers. The MPERC however did not agree and opined that meters be installed on distribution transformers supplying electricity to predominantly agriculture consumers immediately and advised the Discom to conduct a sample survey during the busy as well as lean seasons of the year so as to estimate the trend of consumption.

While approving the tariff for the year 2010-11, MPERC has not accepted the study submitted by the Paschim Discom and stated that it was incomplete as the sample size was not sufficient hence it was not found acceptable (May 2010) for the purpose of billing of un-metered agriculture consumers. The MPERC further stated that the Discom had provided meters on about 10 *per cent* DTRs as against the directive of previous Tariff Order for providing meters on at least 25 *per cent* agricultural predominant DTRs. The Poorv Discom had not submitted any data.

As per study of Paschim Discoms, the per month consumption during 2010-11 during Off and On season was 82 units(Off season) and 178 units(On season) against which MPERC allowed billing @40 units(Off season) and @120 units (On season). Due to this the Paschim Discom had to forgo revenue on short billing of 286.13 MU during 2010-11.

The Paschim Discom stated (May 2011) that it is making all efforts to comply with the directives of the MPERC.

Under charge/ non levy of initial/ Additional Security

2.2.41 The MPERC issued Security Deposit (Revision-I) Regulations, 2009 in August 2009. No exemption regarding recovery of security deposit from any particular consumer or a group/category of consumers has been made in the regulations.

As per regulation, security deposit equivalent to 45 days' consumption should be payable to the Discom. The adequacy of amount of the security deposit obtained from the consumers would be reviewed by the Discom annually in April every year on the basis of consumption during the previous 12 months. Based on this review, the Discom may raise demand on the consumer for additional security deposit in three equal monthly instalments.

We observed that the Poorv Discom raised the demand for 50 *per cent* of additional security deposit of ₹ 2.74 crore on November 2010 and no demand for the balance 50 per cent of additional security deposit of ₹ 2.74 crore was raised so far (March 2011).

Energy Conservation

2.2.42 Recognizing the fact that efficient use of energy and its conservation is the least-cost option to mitigate the gap between demand and supply, the GOI enacted the Energy Conservation Act, 2001. The conservation of energy being a multi-faceted activity, the Act provides both promotional and regulatory roles. The promotional role includes awareness campaigns, education and training, demonstration projects, R & D and feasibility studies. The regulatory role includes framing rules for mandatory audits for large energy consumers, devising norms of energy consumption for various sectors, implementation of standards and provision of fiscal and financial incentives.

We observed that all the three Discoms have displayed on their websites do's and don'ts for consumers for conservation of electricity, benefits of usage of compact fluorescent lamps (CFL) and other energy efficient devices. Further they offer incentive to consumers for use of energy saving devices, use of ISI marked pump sets, increasing power factor etc. It was also observed that the Madhya Discom has replaced the lights and bulbs in their corporate office with CFLs.

A study of process of implementation of Bachat Lamp Yojana revealed the following:

2.2.43 In the three Discoms, we observed that though action was initiated as long back in 2008 and 2009 (Poorv Discom September 2008, Madhya and Paschim Discoms January 2009), the Discoms are still (December 2011) in the process of finalising the agency for implementation of the Scheme.

Delay in implementation of the scheme has resulted in non achievement of the stated objectives of likely reduction in power of 86.21 MU annually (Poorv Discom). The Paschim Discom had not assessed the likely reduction in peak load or saving in power purchase cost that would accrue annually upon implementation of the scheme.

Monitoring

2.2.44 The Power Distribution Utilities play an important role in the State economy. For such a giant organisation to succeed in operating economically, efficiently and effectively, the affairs are required to be monitored by top management.

Regular (daily/weekly/monthly) MIS reports are generated based on the information received from the field and are available on the Discoms' website for review by top management. MPERC, under Para 5.3 (f) of the above Tariff Order (2006-07), directed the Discoms to initiate action and report compliance on the issue, *inter alia*, of induction of full-time Directors for Finance and Operations. The MPERC has issued the directives with the intention that the management of the companies must be properly equipped with the requisite level of proficient persons so as to handle affairs of the companies in an efficient and diligent manner.

We observed that the Discoms have yet (December 2011) to comply with the above directive of the MPERC.

Conclusion

- **Discoms could not achieve the planned addition of substations.**
- **Discoms achieved only 77 *per cent* of target for rural electrification.**
- **The two Discoms had not included a clause in the agreement for levy of interest on the mobilisation advance to contractors. While the Discoms are paying interest on loans from PFC, they granted interest free advance to contractors.**
- **The percentage of metered consumers to total consumers decreased from 75 in 2006-07 to 64 in 2010-11.**
- **Discoms have not implemented the National Tariff Policy by regulating the tariff of non-domestic, industrial, railways and coal mine consumers with +/- 20 *per cent* of average cost of supply.**
- **Cash Flow Mechanism followed by the MPSEB does not provide the financial autonomy to the Discoms.**
- **Due to incorrect estimation of unmetered agricultural consumers, the Paschim Discom had to forgo revenue on short billing of 286.13 MU during 2010-11.**

- **Delay in implementation of Bachat Lamp Yojana resulted in depriving the savings in power of 86.21 MU annually in respect of Poorv Discom. The Paschim Discom had not assessed the likely savings in peak load or reduction in power purchase cost that would accrue annually upon implementation of the scheme.**

Recommendations

The Discoms need to

- **increase the phase of addition of Sub-Station to the distribution network.**
- **avoid providing interest free mobilisation advance to contractors.**
- **speed up the pace of rural electrification.**
- **regulate the tariff in accordance with the National Tariff Policy.**
- **MPSEB need to review the policy of Cash Flow Mechanism to provide financial autonomy to Discoms.**